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Heading for a winter of discontent
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FINANCIAL TIMES

Europe's Business Newspaper

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EC commissioner threatens to quit in rift with Brittan

Hans Van den Broek, European Community external political affairs commissioner, has threatened to resign if he fails to secure concessions in a long-running power struggle with Sir Leon Brittan, chief EC trade negotiator.

The rift focuses on who has management responsibility for EC overseas delegations. Mr Van den Broek, former Dutch foreign minister, wants to share responsibility for appointing around 500 civil servants to overseas posts such as Washington, Tokyo and Moscow. Page 16

VW may bar top managers: Several Volkswagen executives may be ordered to stop work temporarily if a compromise, reached between lawyers representing the group and rival Adam Opel, is approved by their boards this week. Page 16

Trade figures hitch for UK: The UK faces three years of incomplete trade figures after difficulties with the European Community's new system of measuring intra-Community trade. Page 16

American Telephone & Telegraph, US telecommunications group seeking to establish itself in Europe, told potential European partners there was little prospect of aggressive competition in their home markets this decade. Page 17

Bank of England man to head BIS

Andrew Crockett (left), is to take over as general manager of the Bank for International Settlements from Alexandre Lamfalussy, president-elect of the European Monetary Institute. Mr Crockett, executive director of the Bank of England with responsibility for international affairs, said he foresaw no diminution of BIS activity once the EMI began to operate. The BIS acts as a centre for research on financial trends and issues and as a forum for central bankers. Page 2

Rome crackdown on intelligence agency: Italy's intelligence services, implicated in an embezzlement scam, must be reformed before the end of the year, prime minister Carlo Azeglio Ciampi said. Page 3

ABB and Renault in robotics link-up: Asea Brown Boveri, Swedish-Swiss engineering group, is to acquire the robotics operations of Renault and form a joint venture in automated vehicle assembly with the French car group. Page 17

Princess sues newspaper group: Lawyers for the Princess of Wales issued writs against Mirror Group Newspapers over publication of pictures of her at a fitness club as efforts were under way to allow the newspaper group to rejoin the UK system of press self-regulation. Page 8

Refugee numbers soar: The global total of refugees rose to 18.2m at the start of this year from 2.5m in 1970, according to a report by the UN High Commissioner for Refugees. Page 5

Japan's recovery forecast reversed: Japan's Economic Planning Agency reversed its previously optimistic assessment on growth, saying it saw little evidence of an upturn in the economy. Page 5

S.G. Warburg, UK-based investment bank, reported pre-tax profits of £148.8m ($225m) for the six months ended September 30 compared with £51.2m a year ago. Market making and proprietary trading performed strongly. Page 17; Lex, Page 16

Nextel, US mobile data communications services company, plans a nationwide advanced digital communications network to compete with existing cellular telephone services. Page 17

Ex-LDP man denies breaking law: Ichiro Ozawa, former secretary-general of the Liberal Democratic party, denied any legal violations in accepting Y5m ($47,000) in donations last year from Kajima, a construction company. Page 5

Gatt deal could bring $270bn benefits: A Gatt deal could enrich the world by $270bn by 2002, the Organisation for Economic Co-operation and Development said in the highest estimate yet of the benefits that could flow from the seven-year Uruguay Round negotiations. Page 7

Setback for Jordanian fundamentalists: Moslem fundamentalists lost seats in multi-party elections but remained the largest bloc in parliament. The result was a victory for King Hussein who urged voters to show moderation. Page 4

Document guarantees right to own land, establishes independent central bank

Yeltsin granted supreme role in draft constitution

By John Lloyd in Moscow

RUSSIA'S draft constitution, published last night, establishes the president as the supreme authority in the country and guarantees, for the first time, the right to own and sell land.

The draft, which will be put to a referendum on December 12, also establishes the central bank as independent of all levels of state power.

President Boris Yeltsin, in a television address last night, said the constitution was designed to lay down a "firm, legal order" for a democratic state. He said it marked a break with the Soviet past and with the period of "dual power" between presidency and parliament which ended with the banning of parliament in September.

The draft establishes the president as the supreme authority in the country, giving him the right to override the decisions of the two-chamber parliament, issue decrees and be impeached only after a lengthy process of voting and reference to the courts.

The president can dissolve the legislature if it fails to approve three of his candidates for prime minister or if it passes a vote of no-confidence in the government.

PAGE 3
■ Yeltsin outlines new order for his country

The president also proposes candidates for the chairman of the central bank, all key judges and the prosecutor general.

It establishes all 89 "subjects of the federation" – the republics, regions, districts and two main cities (Moscow and St Petersburg) – as equal in their rights and subject to the laws and decisions of the federal authorities.

It sets out civil and social rights for all citizens of the federation, enshrining in law rights to belief, travel and assembly, which have been practically non-existent for much of this century, especially after the 1917 Bolshevik revolution. "The right of private property is secured by the state," it says.

In a final section on the "transitional situation", it lays down that the president must serve his full term until June 1996 – thus cancelling Mr Yeltsin's promise to stand for election in June – a decision that he announced at the weekend and which has attracted fierce criticism from opposition parties campaigning for election on December 12.

The draft constitution will be enshrined in law if 50 per cent of those voting in the national referendum on the same day support it.

The constitution has already attracted criticism from the liberal end of the political spectrum. Mr Garry Kasparov, the world chess champion and a candidate of the pro-Yeltsin group Choice of Russia, said: "It is obviously temporary, it cannot serve the country in the longer term."

In a front-page editorial in Nezavisimaya Gazeta, Mr Valery Tretyakov, the Moscow daily's editor, said the constitution would be approved in the referendum but that "it is a constitution for presidents in general and for President Yeltsin in particular".

Mr Yeltsin, in a pre-emptive move yesterday against the attempt by the Sverdlovsk region to upgrade itself to the status of the Urals Republic, cancelled the region's declaration of republican status – only to have the regional leader, Mr Eduard Rossel, proclaim he would stand for election as governor of the republic. The Central Electoral Commission also urged the leadership of the North Caucasian republic of Chechnya to take part in elections. It has so far refused, arguing it is an independent state.

Associated Press
Russian president Boris Yeltsin signs the new proposed constitution

Russia wins European trade concessions

EU to present package to Yeltsin at one-day summit tomorrow after all-night negotiations

By Lionel Barber in Brussels and John Lloyd in Moscow

THE European Union yesterday agreed to wide-ranging trade concessions to Russia as part of its drive to secure a new trade and political pact with Moscow before the parliamentary elections in December.

The package will be presented to President Boris Yeltsin tomorrow at a one-day meeting in Moscow which Brussels views as a useful show of support for the forces of democratic reform in Russia.

The Belgian presidency of the European Union, accompanied by Mr Jacques Delors, president of the European Commission, will attend the summit. Also on the agenda is European financial support for the parliamentary elections and the promised dispatch of European election observers.

It was agreed after an all-night negotiating session in which member states were torn between the political goal of backing Mr Yeltsin and the pain of offering economic concessions which could hurt European industry still trapped in recession.

After intervention by Sir Leon Brittan, chief trade negotiator, ministers came down in favour of a compromise.

Sir Leon's new negotiating mandate offers marginal concessions in terms of improving market access for cheap Russian imports such as steel and aluminium, but it does modify the use of the draconian weapons which Brussels can deploy against alleged unfair traders.

Thus, Russia will no longer be labelled a "state trader" or "command economy" such as North Korea or China, but as an "economy in transition". Officials hope this will meet Moscow's demands to be treated more as a capitalist than a Communist country.

The chief advantage of the new trading status is that Russia would be less liable to automatic anti-dumping suits. In future, the Commission will have to prove "substantial injury" to European producers, and to consult Russia before imposing levies.

Similarly, the EU has agreed to tighten up on the use of so-called "safeguard clauses" which can be invoked to protect European industry. Under the new mandate, Europe must show that Russian goods are both underpriced and that there has been a significant surge in imports.

A final concession is to offer Russia 1998 as the date when the Union and Russia will decide on whether to create a common free trade zone. The aim is to underscore Europe's long-term willingness to lower trade barriers, despite worries that state subsidies have created artificial prices in sectors such as energy.

In Moscow, Mr Alexander Shokhin, the Russian deputy prime minister who has negotiated the agreement with Sir Leon, said yesterday that no substantial barriers remained between the two sides. Two of the touchiest issues – on the EU demand to include a standard clause on human rights, and on the right of foreign creditors to seize Russian property abroad – were settled only after reference up to President Boris Yeltsin and Mr Delors, he said.

Commission power play, Page 16

Producer prices cheer US markets

By Michael Prowse in Washington

FRESH EVIDENCE that faster economic growth is putting little upward pressure on prices helped restore confidence in US financial markets yesterday after heavy selling of bonds and shares last week.

The US Labour Department reported yesterday that the producer price index fell 0.2 per cent last month and rose only a marginal 0.2 per cent in the year to October. The figures were much better than generally expected. Most analysts were looking for an increase in producer prices of about 0.2 per cent.

Bond prices rose sharply, partially reversing sharp recent declines. By midday, the benchmark 30-year Treasury bond was up more than a point, cutting the yield to 6.11 per cent. Wall Street share prices also rose, with the Dow Jones industrial average up 16.49 at 3664.38 by midday.

Analysts, however, were keenly awaiting today's consumer price figures, which are not expected to be as favourable as the wholesale price data. The consensus forecast is that consumer prices will rise about 0.3 per cent, although about a third of this increase will reflect a 4.3 cents a gallon increase in petrol taxes that took effect last month. The year-on-year increase is expected to be under 3 per cent.

The "core" producer price index, which excludes the volatile food and energy components, fell 0.5 per cent last month and was up only 0.1 per cent in the year to October. However, this largely reflected a 3.9 per cent drop in seasonally adjusted car prices, a one-off decline associated with the introduction of new 1994 models. Excluding cars, core producer prices were roughly flat last month.

"In a productivity-led recovery, faster growth does not have to lead to higher inflation," said Mr Stephen Roach, senior economist at Morgan Stanley, the New York securities firm. He noted that wholesale prices had fallen at an annual rate of 3 per cent in the past six months, reversing an apparent rise in inflation early this year.

Editorial Comment, Page 15

Mexican peso under pressure as US vote on Nafta nears

By Damian Fraser in Mexico City

MEXICO'S PESO came under heavy selling pressure yesterday as foreign and domestic investors became increasingly nervous over prospects for the North American Free Trade Agreement.

The exchange rate fell at one time almost to its lowest permitted level of 3.31 pesos to the dollar, 5 per cent below the opening rate of 3.15. By noon the currency settled down to 3.25, after reported heavy intervention by the central bank.

Uncertainty in Mexican financial markets has been mounting in the past week ahead of the scheduled vote in the US House of Representatives on Nafta on November 17. Last night, US vice-president Al Gore and Texas billionaire Ross Perot were to participate in a televised debate in the US on the subject.

"The market is very nervous about Nafta and the Gore-Perot debate", said Antonio Gonzalez of Estrategia Monetaria, an exchange rate house in Mexico City. "By letting the exchange rate appreciate to the upper band, the Central Bank is raising the costs of speculation."

Mexico's peso is allowed to float within a band, currently between 3.056 and 3.309 to the dollar, the floor of which devalues fractionally every day. The peso, remarkably stable throughout the year, started weakening last Wednesday, when foreign and domestic investors began to sell the currency to lock in gains made this year on Mexico's high-yielding government paper.

"The risk is that if Nafta does not pass the peso will break out of the band," said Mr Ashwin Vasan, who manages global bond portfolios at Oppenheimer Management in New York. "There is a 20 per cent chance this will happen."

A devaluation would be a serious economic and political blow to President Carlos Salinas's administration, which has made price stability and a strong currency the centrepiece of economic policy. Government officials have said they would allow interest rates to rise to whatever level is necessary to keep the peso within the band.

Mexico's short-term interest rates in the secondary market rose to over 20 per cent yesterday. But the stock market, which had fallen by a combined 4.2 per cent on Friday and Monday, edged higher yesterday.

Gore and Perot braced for debate, Page 7

Clinton stiffens stance on plutonium

By George Graham in Washington

PRESIDENT Bill Clinton has stiffened his opposition to the production of plutonium even for civil purposes, in a move that might pose yet another challenge to the UK's controversial Thorp nuclear fuel reprocessing plant.

In a letter to members of Congress, Mr Clinton said continued production of plutonium, even for civil purposes, was "not justified on either economic or national security grounds, and its accumulation creates serious proliferation and security dangers".

The statement marks a step forward from the Clinton administration's non-proliferation policy issued in September.

In that document, the White House said only that it would "seek to eliminate where possible the accumulation of stockpiles of highly enriched uranium or plutonium, and to ensure that where these materials already exist, they are subject to the highest standards of safety, security and international accountability".

Thorp, built in Cumbria by

Continued on Page 16
Cleaning up Lithuania's nuclear plants, Page 12

■ STOCK MARKET INDICES

FT-SE 100	3096.0	(+18.4)
Yield	3.81	
FT-SE Eurotrack 100	1346.87	(+9.44)
FT-A All-Share	1528.48	(+0.4%)
Nikkei	18,125.71	(-499.48)
New York lunchtime		
Dow Jones Ind Ave	3657.68	(+9.78)
S&P Composite	462.42	(+2.21)

■ US LUNCHTIME RATES

Federal Funds:	3%
3-mo Treas Bills: Yld	3.157%
Long Bond	$101\frac{11}{16}$
Yield	6.121%

■ LONDON MONEY

3-mo Interbank	$5\frac{11}{16}$%	(same)
Liffe long gilt future:	Dec $114\frac{1}{16}$	(Dec $113\frac{3}{4}$)

■ NORTH SEA OIL (Argus)

Brent 15-day (Dec)	$15.52	(15.705)

■ Gold

New York Comex (Dec)	$376.6	(375.5)
London	$375.6	(376.25)

■ STERLING

New York lunchtime:		
$	1.4866	
London:		
$	1.4865	(1.4805)
DM	2.49	(2.495)
FFr	8.68	(same)
SFr	2.1975	(same)
Y	159.0	(160.0)
£ Index	80.1	(80.5)

■ DOLLAR

New York lunchtime:		
DM	1.6838	
FFr	5.9035	
SFr	1.49435	
Y	108.13	
London:		
DM	1.685	(1.685)
FFr	5.91	(5.8625)
SFr	1.497	(1.4845)
Y	108.25	(108.05)
$ Index	66.6	(66.1)
Tokyo close Y 107.97		

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lev25.00	Iceland	IKr215	Neth	Fl 3.75	Slovak Rp	KSL45
Cyprus	C£1.00	India	Rs40	Nigeria	Naira45	South Africa	R12.00
Czech Rp	CZK45	Israel	Shk6.90	Norway	NKr18.00	Spain	Pta210
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Sweden	SKr15
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Switz	SFr3.20
Finland	FM12	Jordan	JD1.50	Philippines	Pso45	Syria	S£50.00
France	FFr9.00	Kuwait	Fils.600	Poland	Zl 32,000	Tunisia	Din1.250
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es215	Turkey	L6000
						UAE	Dh11.00

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Bank of England man sees strong role for Basle in Europe

Briton appointed BIS chief

By Ian Rodger in Basle

MR ANDREW Crockett, appointed yesterday as general manager of the Bank for International Settlements, said the BIS would probably intensify its research efforts on the problems associated with financial derivative instruments and on eastern European monetary issues.

Mr Crockett, executive director of the Bank of England with responsibility for international affairs, expects to succeed Mr Alexandre Lamfalussy on January 1. Mr Lamfalussy is to become president of the European Monetary Institute (EMI) in Frankfurt, the precursor of a European central bank.

Speaking at a press conference following the monthly BIS governors' meeting in Basle, Mr Crockett said he foresaw no diminution of the BIS's activity once the EMI began to operate.

The BIS operates officially as a central bank for 33 central banks, holding on average 10 per cent of their reserves. But its significant roles are as a centre for research on financial trends and issues and as a forum for central bankers to discuss them.

"I would see the creation of the EMI as an opportunity for the BIS to refocus its activities on the global context," he said. He cited commercial banks' capital adequacy, the very rapid expansion of derivative products and problems arising from the rapid evolution of payment settlement systems.

"There is no doubt that derivatives is a subject that has attracted a lot of attention. It would not surprise me if we refocus our activities to devote more resources to that. My concern is to make sure that the staffing and analysis and statistical research is adequate for the governors' needs." Mr Crockett also signalled a greater effort by the BIS to serve its many eastern European central bank members. "I think there is an important role for the BIS in serving the needs and interests of these countries as they emerge towards integration with the rest of Europe."

He acknowledged that many western European central banks could well reduce their deposits at the BIS as European monetary union progressed.

"Obviously, once European economies reach stage three, they will not have the same need to hold reserves, some of which they deposit at the BIS. So it is not unreasonable to expect their deposits with the BIS to diminish."

Mr Crockett made clear that he fully supported the process of European monetary union. "I have been associated in the past four-and-a-half years with a lot of activity, including Maastricht.

"I am very committed myself to the work that has gone on in Europe.

"I believe in the process of monetary integration, but of course, that has to take place in a realistic context and taking account of the realities," Mr Crockett said.

Associated Press

Crockett: sees no diminution of the BIS after the EMI starts up

Banker whose wink is as good as his nod

By Peter Marsh, Economics Correspondent

CENTRAL bankers are supposed to indicate their thoughts by barely perceptible movements of their eyebrows. With Mr Andrew Crockett – appointed yesterday as the new general manager of the Bank for International Settlements, the central bankers' bank, it is the eyelids that are important.

Mr Crockett, international director at the Bank of England, has the appearance of a self-effacing though well-dressed don. And he likes to give a sly wink when communicating economic policy asides to people who are outside the generally closed circle of international monetary officials.

Mr Crockett, 50, takes over at the Basle-based bank at the beginning of next year at a time when the future of the 63-year-old bank is clouded, partly by a number of impending changes at the top of the organisation, and by to what degree the BIS will shed its somewhat introverted image to take on a bigger role in influencing international economic policy.

Mr Crockett will also have to carve out a relationship with the new European Monetary Institute, due to be set up next year in Frankfurt as a precursor to the proposed EC central bank, where his predecessor, Mr Alexandre Lamfalussy, will be the new head.

Born in Glasgow, Mr Crockett joined the Bank of England in 1966 after studying economics at Cambridge and Yale. He did a 17-year stint with the International Monetary Fund before returning to the Bank in 1989 as international director – one of the top four positions in Threadneedle Street after governor and deputy governor. He is the first Briton to head an important international monetary organisation.

At the IMF, Mr Crockett's most important job was preparing the Fund's twice-yearly world economic outlook. Here he built up a reputation for careful analysis. Mr Flemming Larsen, the Fund's assistant research director, says of Mr Crockett: "He has an amazing ability to convince people of points he wants to convey even when they are controversial."

This skill should come in useful when Mr Crockett takes over the job of writing the BIS's highly regarded annual review of the world economy which next comes out in June.

In the debate about how Europe will move forward in monetary integration after the currency crises of the past 18 months, Mr Crockett has suggested that different countries could try to build economic convergence by keeping inflation within targets which are set domestically but are broadly compatible.

Mr Crockett takes over the chairmanship in Paris today of working party three, a secretive group of central bank and treasury officials which meets under the auspices of the Organisation for Economic Co-operation and Development.

As for the future style of the BIS under Mr Crockett, much depends on who is chosen to replace the three top officials – assistant general manager, Mr Rémi Gros, head of administration, Mr Giampietro Morelli, and chief economist, Mr Horst Bockelmann – who are due to retire over the next two years. According to one view, Mr Crockett is likely to start by beefing up the economics department which, some observers feel, could build on its good international reputation by specialising more on specific issues such as banking behaviour and currency flows.

Balladur sees no easy fix on jobs

By David Buchan in Paris

CLASSIC ways of lifting France out of recession through a big boost in public spending and a sharp cut in interest rates would not work in an economy beset with such a high level of structural unemployment, the prime minister, Mr Edouard Balladur, said yesterday.

Addressing a conference organised by the International Herald Tribune, Mr Balladur was thus rejecting criticism, partly from within his own parliamentary majority but also often echoed in the foreign exchange markets, that his go-slow approach will prove politically untenable in the face of lengthening dole queues.

Mr Balladur said that, given the openness of the French economy, the effect on employment of policies designed simply to stimulate demand "would at best be negligible in the short term and unfavourable in the long term". Spending in the 1994 budget is due to rise by 1.1 per cent, or at half the predicted inflation rate.

Equally, Mr Balladur ruled out trying to "force" interest rates down, not only because such a move would bring the franc down and inflation up, but also because "with companies so uncertain about demand and with significant unused capacity ... the impact on consumption and investment would be very weak".

In contrast to the government's first four months in office, in which French interest rates were cut eight times independently of the Bundesbank, French monetary policy now seems to be awaiting German action. Only half a million of the 3.2m French now out of work had lost their jobs due to the cycle of recession, Mr Balladur said. More than three quarters of France's unemployment was due to the high cost and low qualification of French labour, and to waste in the public sector.

Second German company in Aids scare

By Ariane Genillard in Bonn

BLOOD products from a second German company have been recalled from 64 hospitals because of suspicions that the products may contain the HIV virus, as Germany's largest medical scandal widens.

Haemoplas, a company based in Lower Saxony, is suspected by local authorities of failing regularly to test its blood products for HIV, the virus which causes acquired immune deficiency syndrome (Aids).

All hospitals and medical centres in the country using the products have been ordered to send them back to local authorities.

Meanwhile, the state prosecutor's office in Koblenz said it had found two HIV-infected blood samples among the 2,000 tested so far from UB Plasma, the company that caused nationwide panic after it revealed it had not properly tested its blood products for HIV.

The prosecutor's office said it needed to check up to 20,000 blood products from UB Plasma, a process which could continue well into next year.

The revelations have caused tens of thousands of worried Germans to telephone local hospitals and medical centres to ask for advice or seek an Aids test.

Algerian exiles held by French

French police yesterday rounded up some 70 suspected Algerian Moslem fundamentalists in an attempt to prevent terrorism spreading across the Mediterranean to France, writes David Buchan.

Among the 30 arrested in the Paris area were Mr Moussa Kraouche and Mr Djaffar Houari, leaders of the Algerian Fraternity in France, which is suspected of being a front organisation for the Islamic Salvation Front that is banned in Algeria. The dawn swoop was triggered by the kidnapping last month of three French officials in Algiers.

Bangemann says EC car industry needs overhaul

By Andrew Hill in Brussels

THE European Community car industry will have to sacrifice jobs, cut working hours and introduce new training methods and working patterns if it is to compete with US and Japanese manufacturers, the EC's industry commissioner said yesterday.

Mr Martin Bangemann told a Turin conference on the future of the EC car industry that the Commission would encourage training and re-training, and back technological innovation to help improve the competitiveness of the car industry.

Mr Bangemann also called for the development of an EC-wide computerised road-pricing system, which would replace toll-kiosks on main European highways, and help reduce congestion and pollution. "We do not abolish frontiers in Europe just to see ourselves forced to stop every few kilometres to pay a toll," he said in his speech, the text of which was released in Brussels.

The Commission has just submitted to member states a draft of its latest report on the state of the EC car industry. Industry ministers will discuss the study at their meeting on November 18 and Commission officials said yesterday they expected several weeks of fierce political debate about how the EC should respond to the industry's problems. A final report is likely to be adopted in early 1994. In his speech yesterday, Mr Bangemann urged the industry to invest in new plants with the aim of creating a European "lean production" system as productive and cost-efficient as the Japanese equivalent.

But he added that there would also have to be changes to the internal organisation of companies and to their relationship with outside partners, component manufacturers and the sales network.

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Yeltsin outlines new Russian order

By John Lloyd in Moscow

"RUSSIA needs order", President Boris Yeltsin told the Russian people in a television broadcast last night. But he continued: "Not the terrible, repressive order of Stalinist camps: Russia urgently needs firm, legal order."

The draft constitution, published today throughout Russia, is his attempt to give it that basis. It is certainly not a Stalinist order (though the Stalinist constitution on paper was a model of democratic practice), for it is careful in defining the rights and duties of the levels of government which exist now or should be elected. But it is certainly firm.

It has been plain for some weeks that this was to be a constitution for a strong presidential state, with much of the US and French systems about it.

As it turns out, it is stronger than either, largely because the two houses of the federal assembly, or parliament, are limited in crucial areas by the overriding powers of the president. These allow him:

● to be head of state and of the armed forces;
● to set the general direction of internal and foreign policy, announced yearly in a state of the nation address;
● to name the prime minister and insist on keeping him even if parliament objects;
● to name the senior military commanders without parliamentary approval; and
● name and head the security council, which has a wider range of powers than pure security.

If his government is challenged by a vote of no confidence in parliament, he can keep it in office for three months and then sack the parliament rather than the government, if the vote is repeated.

He can veto any law passed by a simple majority in the lower house, and then require a two-thirds majority for it to be passed. And though he himself can be impeached for treachery or very serious crimes, these do not include breaching the constitution.

He needs the lower house's approval for appointment of the chairman of the central bank, and upper house approval to appoint the chairmen of the main law courts. But all of these chairmen are then guaranteed independence.

The two houses of parliament – the Council of the Federation (upper house) and the State Duma (lower house) – will, at least initially, be under imminent sentence of fresh elections at the end of 1995.

Although the deputies will be elected to the upper house this time round, after the first two-year period they will be appointed. Each of the 89 republics and regions will send two appointed members to Moscow, one from the local administration (which is appointed by the president) and one from the local parliament.

Deputies have the right to initiate and to pass legislation – which can be vetoed by the president. But they do not, apparently, have the right to consider, much less block, presidential decrees, which can be issued by the president and must only conform to the constitution.

Presidential decrees have been the backbone of new legislation passed since the abolition of the old parliament in September: it seems likely that that tradition will continue.

Nevertheless, in an evident effort to mark a complete break with the Soviet past, the constitution is replete with rights.

It is the charter for a strong president – but it is assumed he will also be a liberal one.

Ciampi speeds intelligence service reform

By Robert Graham in Rome

REFORM of Italy's much discredited intelligence services had to be carried out before the end of the year, Mr Carlo Azeglio Ciampi, the prime minister, told parliament yesterday.

The tight timetable underscores the government's concern about the damage being caused by an ever widening scandal over embezzlement of intelligence funds and a deliberate campaign by members of the intelligence community to denigrate ministers as well as President Oscar Luigi Scalfaro.

The scandal took a new turn yesterday when Mr Alessandro Voci, head of the domestic intelligence service (Sisde) from August 1991 to July 1992, resigned as special administrator of the dissolved Rome city council following allegations of involvement in misusing Sisde funds.

Mr Ciampi proposed last month to merge domestic intelligence (Sisde) with military intelligence (Sismi) in a single body controlled directly by the cabinet office and answerable to parliament. But he is handicapped because the shake-up of so sensitive an area requires a broad political consensus and was not part of his brief when he agreed to become premier in May.

The reforms risk provoking a controversy with the Christian Democrats who have controlled the interior ministry – responsible for domestic intelligence – since 1946. This is the only portfolio to have been held by one party throughout the post-war era.

Mr Ciampi revealed that funding for the intelligence services had been L696bn (£289m) in 1992, of which L359bn was on a secret unaccountable basis. This year the budget is expected to be L724bn.

Until now, these funds have been spent without any accountability, and more than 14 former Sisde employees are now accused of having syphoned off money for their own purposes.

An equally serious allegation being investigated by Rome magistrates is that part of these secret funds were used to supplement senior officials' expenses. Two former interior ministers and Mr Nicola Mancino, the current minister, are due to give evidence to magistrates today on this issue.

A further allegation is that secret funds have been used to pay kidnap ransoms at politically sensitive moments, although the law formally forbids such payments.

Rome police have uncovered yet more wealth accumulated by Mr Duilio Poggiolini, the senior health ministry official (from whom more than L200bn (£83m) in assets has been seized because it is alleged they originated from bribes, writes Robert Graham in Rome.

The latest haul included some 60 modern paintings and L10bn concealed in a large living room pouff in one of Mr Poggiolini's Rome apartments.

The find follows the arrest last week of Mr Poggiolini's wife on charges of assisting her husband in collecting bribes from pharmaceutical companies. Her arrest also led to a scare that she had been involved in allowing suspect plasma to be sold. However, the health authorities this week discounted suggestions that infected plasma had been on sale.

In another development police announced they were stepping up the search for Mr Oliviero Prunas, deputy chairman of the state-controlled Banca di Roma. He is wanted for his alleged involvement in the Enimont affair, the politically sanctioned sale in 1990 at an inflated price of Ferruzzi-Montedison's stake in its joint chemicals with Eni, the state oil company.

Mr Prunas is the third banker linked to the Enimont affair which produced kickbacks totalling L150bn.

Vasso Papandreou: market orientated

EU convergence guides Greece's economic path

By David Marsh in London and Kerin Hope in Athens

MS VASSO PAPANDREOU, one of the chief standard-bearers of the Greek Socialist party, said yesterday that "international competition" left Greece with no choice but to improve economic convergence with the rest of the European Union.

She presented the pragmatic and more market-orientated face of Greek socialism during a visit to London, saying that the new Athens government would press ahead with a modified version of the hotly disputed privatisation programme.

However, Ms Papandreou, EC commissioner for social policy between 1989 and 1992, said Greece was very unlikely to meet the Maastricht convergence criteria for participation in economic and monetary union by 1999.

But, she added: "We have to converge, with or without Maastricht."

Although not in the new government of Mr Andreas Papandreou (to whom she is not related), which took office four weeks ago, she retains strong influence in the Panhellenic Socialist Movement (Pasok).

In the October 10 election, Ms Papandreou, running in Athens, won more votes than any other candidate for parliament.

But political rivalries prevented the prime minister from offering her a cabinet post.

In recent weeks, Ms Papandreou – a previous deputy technology minister and once one of the most radical of Mr Papandreou's followers – has shown more realism than other senior Socialists about Greece's budget deficit.

The government borrowing requirement is forecast to reach 14.9 per cent of gross domestic product this year, against a target of 7.9 per cent.

Declaring the priority was to "stabilise the economy", Ms Papandreou said yesterday the government would take tough action to curb expenditure and raise revenues.

Pasok has already abandoned its pre-election pledge of "no new taxes". A revenue package is under discussion in Athens, including price rises for tobacco and alcohol.

The government is preparing legislation designed to reduce tax evasion, particularly by businesses and the self-employed. The average Greek doctor, lawyer and civil engineer declares an income equivalent to that of a primary school teacher.

The government has formally halted the privatisation programme of the previous conservative administration. But, above all because of financial pressures, Ms Papandreou said the state would sell off stakes of 20 per cent or more in public sector telecommunications and energy companies on the Athens stock market.

Military chief fears for Nato expansion

By David White, Defence Correspondent

NATO'S most senior military official yesterday expressed clear reservations about expanding the alliance, saying its effectiveness could be undermined.

Field Marshal Sir Richard Vincent, chairman of Nato's military committee, also warned against offering security guarantees to former members of the Warsaw Pact.

Drawing comparisons with security promises made in the late 1930s, he said guarantees had to be underpinned by political will and by military capabilities.

"I do not see either of these seriously in prospect," he told an audience at the Royal United Services Institute in London. He said his remarks were "strictly personal".

Sir Richard recognised that Nato might not be moving "far and fast enough" to satisfy the expectations of central and eastern European countries or to fulfil its own aim of helping to create a stable security environment.

But Nato's best path was a step-by-step policy based on practical military co-operation in areas such as peacekeeping. Allies could not afford to "rush into this recklessly".

There were already signs that different national and regional perceptions among existing allies were making it more difficult to achieve a common approach.

Links with eastern Europe will be high on the agenda of a Nato summit in Brussels on January 10.

Sir Richard's outspokenness created a stir earlier this year when he said Nato could not intervene in Yugoslavia unless political leaders provided clear objectives.

He returned to this theme yesterday, arguing that a larger-scale military operation required decisions beforehand on its scope, on its funding, on who should take the ultimate responsibility and on who would exercise day-to-day oversight and direction.

Sarajevo school attacked

By Laura Silber in Belgrade

EFFORTS to revive the moribund peace process in Bosnia yesterday failed to stop a surge in violence as three children and their teacher were killed in a mortar bomb attack on a school in Sarajevo which wounded at least 20 children.

In Mostar, Croat tanks demolished a famous bridge, built in 1566 and which embodied the heritage of the southwestern town. "It was a shot in the heart and soul of every inhabitant of Mostar," a local Moslem leader told Bosnian radio.

Amid intense disappointment with the international community for turning its back on Bosnia, Mr Alija Izetbegovic, the Bosnian president, yesterday snubbed Mr Thorvald Stoltenberg, the UN mediator, who visited Sarajevo in an attempt to get the peace process back on track.

Instead, Mr Stoltenberg met Mr Haris Silajdzic, the prime minister, to discuss the opening of blocked aid routes, reaching a peace settlement.

In another incident which could further tarnish the UN mission in Bosnia, Serb guards on Monday used crowbars to pry open a UN armoured car carrying the Catholic archbishop of Sarajevo and two other Croat clerics who were on a peace mission to the central town of Vares. The Serbs abducted the churchmen's two bodyguards

Rexrodt presses for deal on E German steelmaker

By Andrew Hill in Brussels

MR Günter Rexrodt, German economics minister, today will try to cajole the European Union's industry and competition commissioners into agreeing plans for the future of Ekostahl, the east German steelmaker.

The Treuhand privatisation agency wants Riva, the private Italian steelmaker, to buy 60 per cent of Ekostahl, and invest in the construction of a hot-rolling mill.

But Mr Karel Van Miert, EU competition commissioner, is understood to be insisting on further cuts in capacity at Ekostahl to offset the addition of the new mill.

Mr Van Miert and Mr Martin Bangemann, who is in charge of industry policy, are keen to limit state subsidies to publicly owned steelmakers and to cut capacity to relieve pressure on the industry throughout the member states. They will meet Mr Rexrodt in Brussels today to discuss their difficulties with the Ekostahl case.

A spokesman for Mr Van Miert said yesterday that the full Commission would consider both the Ekostahl case and the Italian authorities' plans for restructuring of Ilva, the loss-making state steel producer, at their meeting today.

But it is almost certain there will not be enough time to prepare for a formal decision on the controversial subsidy cases at the meeting of EU industry ministers on Thursday next week.

Mr Paolo Savona, the Italian industry minister, added to the confusion yesterday when he threatened to press ahead with restructuring of Ilva if the Commission was not more flexible. Mr Savona told the Italian parliament the government would complain to the European Court of Justice if the EU did not make concessions on capacity cuts.

Strike over job cut plans paralyses SEAT plants

THOUSANDS of SEAT motor workers shut down assembly lines yesterday in their third strike in protest at job cuts at the company's Zona Franca plant, AP reports from Barcelona.

Unions called the 24-hour strike in opposition to plans by Volkswagen, SEAT's owner, to stop producing vehicles at the Barcelona factory. Company officials confirmed that all their production facilities – in Zona Franca, Pamplona, Martorell and El Prat – were paralysed by the walkout.

The unions also called on workers at SEAT dealers and suppliers to stop work, but it was not immediately known how widely that call had been heeded.

VW purchased SEAT from the Spanish government in 1986, but has seen its subsidiary's sales decline sharply. Sales plunged 19 per cent in the first 10 months of this year. Losses are expected to reach Pta100bn ($763m) this year.

The company has said it wants parts suppliers to convert the Zona Franca plant into an industrial park. It is not clear how many suppliers will accept that invitation nor how many jobs would be saved if they did.

NEWS: INTERNATIONAL

Militants win biggest bloc in Jordan poll

By James Whittington in Amman

JORDAN'S Moslem fundamentalists yesterday retained the largest bloc in parliament following Monday's multi-party elections but suffered a decline in the number of seats they hold.

Voters elected 16 candidates to the 80-member parliament from the fundamentalist party, the Islamic Action Front, (22 in the 1989 elections). Turnout was 68 per cent of the 1.2m voters who collected their voting cards.

The result is a victory for King Hussein who urged the electorate to show moderation in choosing their representatives. It vindicates the king's policy of accommodating Moslem fundamentalists in the political system rather than excluding them as in Algeria and Egypt. The king said the elections made Jordan "an example for others near and far".

The new parliament, due to convene early next month , consists of mainly tribal and centrist MPs without party affiliations. It is likely to offer strong support to the government in all policies including the peace process, which is rejected by the Islamic Action Front. It will also include Jordan's first woman parliamentarian, Ms Toujan Faisal, an activist branded by fundamentalists as an apostate.

The fundamentalists will have less lobbying power in the new parliament, but the elections were not all bad news for the Islamic Action Front. Its candidates had particular success in Jordan's main non-tribal urban areas of Amman and Zarqa, where high unemployment and poverty makes them perfect breeding grounds for radicalism.

One of the Front's candidates standing in Zarqa, Mr Bassam Emoush, received the highest number of votes. (9,316). The Islamic Action Front took three of the four seats designated for Moslems in Zarqa, the biggest of Jordan's 20 voting districts. In Amman's poverty-stricken First and Second Districts, Islamic candidates dominated the polls.

More surprisingly, in the Third District of Amman, which is home to Jordan's intelligentsia and bourgeois élite, a popular fundamentalist and member of the Islamic Action Front, Mr Ibrahim Zeid Kilani, topped the ballot with 9,131 votes, followed by the former prime minister, Mr Taher Masri, who received 8,789.

Most other parliamentary seats went to independent tribal candidates in rural areas where a vote for the tribe is more important than a vote for Islam or any other ideology.

Out of the 15-or-so political parties standing, aside from the Islamic Action Front, few candidates won seats under party banners. Political parties were legalised in 1992 after a 35-year ban.

A plethora of parties registered for the elections, but most were ill-organised, lacked any coherent policies, and failed to be taken seriously by the voting public.

Mr Yassir Arafat, the Palestine Liberation Organisation chairman, said yesterday Jordan and Israel would sign a "friendly agreement" within the next few days, Our Foreign Staff writes. Mr Arafat, on a visit to Brussels, told a news conference: "Jordan is going to sign, within a few days, a friendly agreement with Israel." He gave no further details.

Jordan's prime minister Abdul Salam al-Majali said in Amman, however: "We already have our agenda with Israel and a full agreement is a long way off." Jordan has consistently denied secret meetings with Israeli officials since it signed its peace agenda with the Jewish state on 14 September in Washington.

Arafat upbeat on peace prospects

By Lionel Barber in Brussels

MR YASSIR Arafat, chairman of the Palestine Liberation Organisation, yesterday invoked the European Community as a model for securing peace and stability in the Middle East.

On the second day of his visit to Brussels, Mr Arafat combined an upbeat assessment of the prospects for peace between Israel and her Arab neighbours with a fervent plea for financial and economic aid for the occupied territories.

He held talks with the King of Belgium and the European Commission, as well as giving a speech to the foreign affairs committee of the Belgian parliament. Throughout, he was accorded the status of a head of state.

Mr Jacques Delors, Commission President, made clear that Brussels regards the newly created Palestine National Authority as a quasi-government in Jericho and Gaza, the two areas due to win local autonomy under an agreement with Israel. The PNA would be the European Union's chief interlocutor in the urgent task of channelling aid, he said.

Mr Delors said European financial aid should be concentrated in three areas: infrastructure; creation of a Palestinian security force, and emergency food aid. Long-term plans for creating a zone of stability would have to wait.

Mr Arafat was a model of self-control throughout an hour-long news conference until asked if the absence of his pistol suggested an effort to cultivate an image of peace. "What will convince you if the agreement in Washington (with Israel) is not enough?" he cried. "We have made a breakthrough. We are paying the price of peace with the price of our blood."

The PLO leader criticised "extremists on both sides" for prolonging the Arab-Israel conflict. But he declined to support calls for an early lifting of the Arab boycott of Israel, suggesting it should await a comprehensive peace settlement.

Qian Qichen: an opportunity for the two sides to put their relations on a more businesslike basis *Associated Press*

China seeks new phase in relations with US

By Tony Walker in Beijing

CHINA yesterday called for a new approach to Sino-US relations, describing next week's summit between the presidents of the two countries as a possible turning point in the vexed relationship.

Mr Qian Qichen, China's foreign minister, said the leaders' gathering at the Asia-Pacific Co-operation Forum to be held in Seattle from November 19-20 was an opportunity for the two sides to put their relations on a more businesslike basis.

Presidents Clinton and Jiang Zemin are due to meet on November 19. It will be the first meeting between leaders of the two countries since before the Tiananmen Square massacre of June 1989 ended high-level contacts.

Mr Qian's remarks, in which he stressed the need for relations to be placed in a longer-term perspective, point to China's wish to set nagging problems over arms proliferation and human rights in the context of the broader relationship.

Chinese officials believe a preoccupation with human rights is stopping relations between Beijing and Washington reaching their potential. Officials have voiced strong objections to the US linking human rights and trade issues, especially the renewal of China's Most Favoured Trading Nation status.

But Mr Clinton is certain to make the point forcefully that China must continue to improve its human rights record to ensure MFN renewal. US officials, including Mr Warren Christopher, secretary of state, have stepped up their warnings to the Chinese that MFN cannot be taken for granted.

The World Bank has estimated that loss of MFN, with its preferential tariffs and quotas on a whole range of items, would cost China $7bn-$15bn (£4.6bn-£9.9bn) annually in lost sales to the lucrative US market.

Mr Clinton said earlier this year when he extended MFN for another 12 months that a further extension would require "overall, significant progress by China" in human rights.

The US also wants improvements in the treatment of prisoners in Chinese jails. It is seeking "access to Chinese prisons by international human rights organisations" such as the International Committee of the Red Cross (ICRC). China has always opposed inspection of its prisons, claiming this would constitute "unwarranted interference". But Mr Qian indicated a possible softening.

Steps taken recently by the Clinton administration to improve relations include the despatch of senior officials to Beijing. Mr Mike Espy, agriculture secretary, is the first cabinet official to visit there since the change of administration.

UK faces hard choice on Hong Kong

Simon Holberton reports from Hong Kong and **Alexander Nicoll** from London

WHEN a British cabinet committee overseeing policy on Hong Kong meets this morning, it will face a choice: to keep talking to China about the colony's political development in the hope of an agreement, or to go it alone with Governor Chris Patten's plans for expanded democracy.

In 15 rounds of talks in Beijing over six months, there have been few signs of progress. But with Mr Patten's oft repeated warning that he will soon have to start putting electoral arrangements into law in time for elections next year and in 1995, China has hinted it may be prepared to agree to the less contentious aspects of his proposals.

An offer to settle on issues such as the voting age and local government elections has not been formally made. But officials indicated yesterday that it would probably be enough to prevent Britain from deciding to break off talks immediately.

However, ministers will demand that the next round of talks, scheduled to begin in Beijing on November 19, produces concrete evidence from the Chinese side that it wants to reach an agreement. "It's essential that China does something in the next round of talks," a senior Hong Kong official said.

Before that meeting, Britain will inform the Chinese government of the outcome of today's deliberations, which will be chaired by Mr John Major, the prime minister, and attended by Mr Douglas Hurd, foreign secretary, as well as Mr Patten.

Officials said China's latest move raises the possibility that some electoral arrangements could be put into law in Hong Kong while discussions on the most contentious issues continue in Beijing – though it is not known whether China would accept this.

This would provide some extra time for negotiations, though Mr Patten has repeatedly said the electoral plans must be put to legislators soon in order to be ready in time and that this is a matter of weeks, not months.

Officials in Hong Kong say the talks can only survive beyond the next round if Beijing can hold out the prospect of a workable deal on the main parts of Mr Patten's plans for broadening the franchise in 1995 elections to the 60-strong Legislative Council (LegCo), the colony's law-making body.

This means allowing broader voter participation in 30 "functional constituencies" which represent business and professional groups, and a democratic structure for an election committee which will elect 10 LegCo members. Britain is also insisting on a "through train" – that LegCo members elected in 1995 would serve through until 1999.

Mr Patten has made clear that he regards avoiding what he calls "rigged" elections in the functional constituencies to be of paramount importance. Officials fear that failure to expand the franchise would provide China with an easy method of controlling LegCo and that it would lose any semblance of an independent legislature.

However, China has made equally clear its opposition to such changes. Mr Lu Ping, director of its Hong Kong and Macao Affairs Office, said: "We want no change. That (functional constituencies) was an idea given to us by the British and we accepted it. We want it to be done exactly as it was done before."

For Britain to go it alone – to seek to have electoral arrangements passed by LegCo without an agreement with China – would be a painful choice. It would mean ditching the policy of trying to ensure that arrangements survive the transfer of sovereignty from Britain to China in 1997. China has threatened to overturn anything Britain does to Hong Kong's political system which does not have its blessing.

Breaking off talks would also mean Hong Kong's hopes of building its new airport and developing its container port facilities would be put on hold.

Although Mr Patten's personal popularity is still high, there is little consensus within the community about the appropriate course of action for the British cabinet to take. Hong Kong wants more democracy, but it also wants tranquil relations with Beijing.

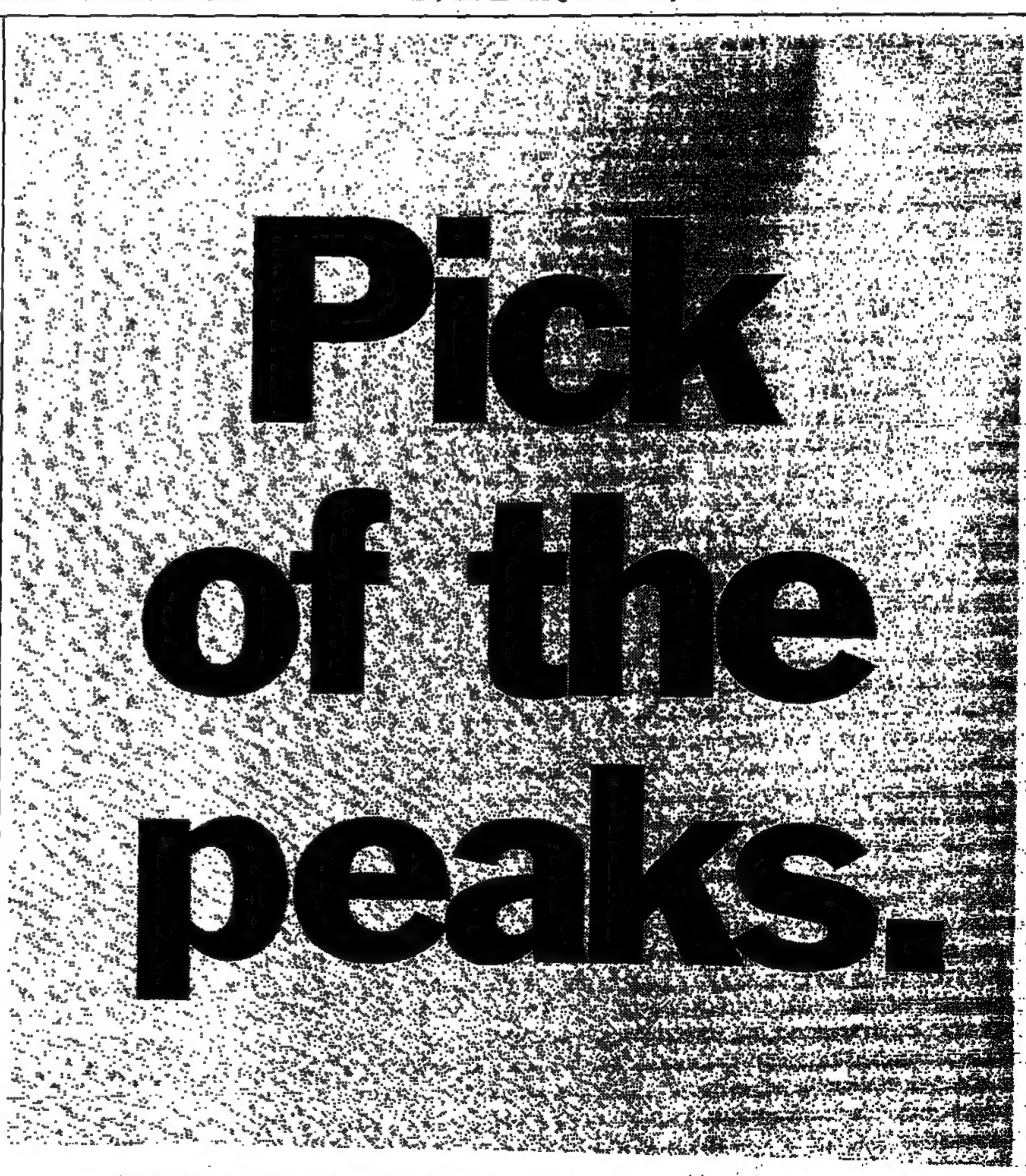
Past words and deeds of Chinese officials suggest that they are sensitive to opinion in Hong Kong as well as to the timetables set out by Mr Patten. Next week's talks in Beijing could indicate whether they will remain so.

See Editorial Comment

CONTRACTS & TENDERS

LEGAL NOTICES

PERSONAL



Refugees total up by 10,000 a day

By Edward Mortimer

WORLD refugee numbers increased by 10,000 a day last year, according to a report published yesterday by Mrs Sadako Ogata, UN High Commissioner for Refugees. Overall refugee numbers have risen from 2.6m in 1970 to 18.2m at the start of this year.

The report, "The State of the World's Refugees", says the numbers refer only to those who have become internationally recognised refugees by crossing an international border. At least 24m are "displaced persons", who have fled their homes but are still within the borders of their own countries. Taking those into account, "roughly one in every 130 people on earth has been forced into flight".

Increasingly, UNHCR is involved in trying to protect internally displaced people as well as transnational refugees (the operations in northern Iraq and Bosnia are the best known examples). But its concept of prevention, outlined in the report, goes much further. While continuing to insist on the right of refugees to asylum (UNHCR's traditional focus), the report recognises "the climate of receptivity for refugees has cooled in many asylum countries".

The causes of refugee movements must now be addressed, it says, or the foundations of international protection could be "overwhelmed, if only by sheer numbers of claimants".

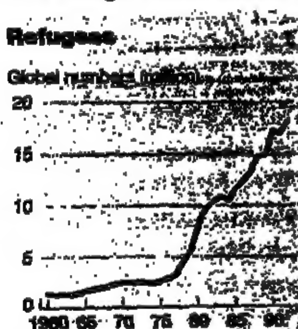
UNHCR has adopted a strategy of "comprehensive response" which, instead of simply protecting refugees after they have fled, seeks to address all the problems which cause them to flee, and which make it difficult or impossible for them to go back. Examples described in the report include the "plan of action" for Vietnam, the "success story" in Cambodia and the "integrated approach" in Tajikistan.

This strategy emphasises "the need to strengthen the state's responsibility for its own citizens", with human rights "the link between state responsibility and the international agenda".

State of the World's Refugees. Penguin Books, £8.99/$14.

See Foreign Affairs column

Refugees



Figures for the years 1964-69, 71-75 and 75 are incomplete. The total for Dec 1992 does not include some 810,000 internally displaced people in Bosnia and Herzegovina
Source: UNHCR

Tokyo planners reverse forecast of an upturn

By Robert Thomson in Tokyo

JAPAN'S Economic Planning Agency yesterday said there was little evidence of an upturn in the economy, reversing its previously optimistic assessment that the country was "poised" for recovery.

The agency, responsible for setting Japan's growth targets, has said for six months that recovery was imminent, but its November report pointed to falling retail sales and capital spending as signs of continuing economic weakness.

Agency officials said yesterday housing starts rose 10.8 per cent in September, compared to a year earlier, but most other sectors are still in decline, including industrial production, and the economy is "generally sluggish".

The EPA had said earlier this year the economy was "bottoming", but indicators have continued to show a weakening of economic activity, which the agency has blamed on the appreciation of the yen and an unusually wet summer.

There is concern within the government that the sudden fall in Tokyo stock prices in the past week will hurt business and consumer confidence, which is particularly weak. New car registrations in October were 6.8 per cent lower than a year earlier and slipped 11.7 per cent from September.

An EPA survey found capital investment in the year to the end of March was likely to fall 9.9 per cent on last fiscal year, as most Japanese companies are looking to reduce, not expand, production capacity.

Mr Hirohisa Fujii, finance minister, said the EPA's gloomier forecast was not reason enough to consider another stimulative package for the economy. He said public works spending would rise in coming months and demand for private housing would remain strong.

EPA officials concede their target of 3.3 per cent growth in the year to March is well out of reach, though the agency has yet to release a new estimate. It has described the official estimate as "a high target to encourage effort" rather than a reflection of likely growth.

Ozawa claims he is misunderstood

By Robert Thomson

IN DENYING allegations he accepted illegal donations, Mr Ichiro Ozawa, the powerbroker who cobbled together Japan's coalition government, yesterday portrayed himself as the misunderstood reformer, unfairly perceived to be most comfortable in the murky shadows of the political backroom.

"I am always supposed to be in the backroom. I am said to be hiding behind the curtain," said Mr Ozawa, smiling as he deflected allegations that he regularly received Y5m (£31,000) from Kajima, the construction company at the centre of Japan's latest political scandal.

Mr Ozawa admits receiving Y5m last year before defecting from the Liberal Democratic party but says he did not violate political funding laws that he wants toughened as part of political reform. But the case has rekindled public doubts about a politician who thrived in the old system, and is leading the charge for the new.

"People should not read too much into my actions," he said. "I am secretary general of the Japan Renewal party and I was the LDP secretary general. I don't have a ministerial position, but I can say what I like in this position."

The fresh allegations have distracted attention from the political reform debate, which Prime Minister Morihiro Hosokawa fears is veering off course. Mr Hosokawa has indicated he will resign if four bills containing the reforms are not passed this year, and the harsh spotlight on Mr Ozawa has not helped the cause.

LDP officials said yesterday they wanted a "thorough" debate on the current batch of scandals and would like to call witnesses from the Ministry of Construction. Mr Ozawa could also be called to give evidence to parliament.

The LDP's new-found concern about corruption is cited by Mr Ozawa as a sign that it is trying to find excuses for not agreeing to political reform. He says "the contents of their stomachs" do not match LDP officials' public statements on reform.

"Leaders of the LDP say they are in favour of political reform, but their real feelings are different. They have 21 complaints but basically these are technical matters, and I find their opposition quite mysterious," Mr Ozawa said.

LDP faction leaders fear the new system of proportional representation and single seats will undermine the old system of patronage cultivated under multi-seat constituencies, which encouraged competition and corruption within the party. But Mr Ozawa says he is confident that younger politicians will defect from the LDP if reform is brought to a parliamentary vote next week.

"Political reform will definitely be decided this year. If we want a happy new year, then we have to conclude negotiations by then," Mr Ozawa said. If things don't go according to plan and the LDP is able to block the bills' passage, then "we will ask for the judgment of the people," meaning that another election will be called.

"Of the LDP's 21 complaints, 80 to 90 per cent could be solved in an hour," Mr Ozawa said. There are four "real problems": redrawing boundaries; the division of seats between candidates selected through local constituencies and proportional representation; whether voters should have one or two votes; and the banning of corporate political donations.

"We are willing to make concessions, so there is no reason not to reach agreement," he said, denying that the Social Democratic party, formerly the Japanese Socialist party, a coalition member, is also opposed to the reforms. There are a few doubters in the SDP, he suggests, but not enough to undermine the legislation.

"Having democracy doesn't mean that everyone has to agree," he said, referring to the Japanese love of consensus. "It is a part of democracy to make a decision. We have been discussing reform for five years, and the time has come to make a decision."

Ozawa: 'People should not read too much into my actions' AP

S Korea to review security

By John Burton in Seoul

THE SOUTH Korean government will hold a meeting today to review security on the Korean peninsula as officials warn that time is running out for North Korea to resolve the nuclear inspection issue.

The meeting, headed by President Kim Young-sam, will analyse military developments in North Korea, South Korean defence measures, and ways to resume talks with Pyongyang and possibly break the nuclear issue deadlock.

The conference comes amid reports from the US and Japan that North Korea is massing forces along its border with South Korea, and a warning from President Bill Clinton that the US would defend South Korea if it is attacked.

But the US said on Monday it had not detected any unusual military movements by the North Koreans, who normally station two-thirds of their army along the frontier with South Korea.

Seoul is concerned that military tensions will increase over the next few weeks if the UN Security Council considers imposing economic sanctions on North Korea for violating nuclear safeguards. The US has said it could refer the nuclear issue to the UN Security Council "within days".

NEWS: THE AMERICAS

CIA knew of BNL loans to Iraq, says former banker

By Alan Friedman in Washington

MR Christopher Drogoul, the former Atlanta banker at the centre of America's arms-to-Iraq scandal, yesterday alleged in congressional testimony that US government officials, including those working with the Central Intelligence Agency, were aware of billions of dollars of Iraqi loans he had extended on behalf of Italy's Banca Nazionale del Lavoro.

The former BNL Atlanta branch manager, who was brought to Washington yesterday morning from prison in Atlanta, also named for the first time BNL executives in Rome who he said knew of and approved his Iraqi dealings.

BNL Rome has denied repeatedly it knew of, or authorised any of, Mr Drogoul's secret loans to Iraq.

The House banking committee has spent the past three years probing whether or not the BNL Atlanta loans, which helped finance Baghdad's nuclear and chemical weapons projects, were part of covert aid to Iraq by the Reagan and Bush administrations. Yesterday Mr Drogoul claimed the BNL Atlanta branch "was no more and no less than a tool of the US government".

Mr Drogoul cited a dinner he attended in Washington with Iraqi and US government officials weeks before the November 1988 presidential election. He said he heard the Americans tell the Iraqis to sign up quickly for more US loan guarantees because "if Dukakis defeats Bush, the Democrats will cut you off."

Mr Drogoul also said that in a 1989 meeting with Iraqi central bank officials he was told not to worry about his lending "because we have been working with the CIA and US intelligence for a number of years".

He also disclosed that Mr Wafai Dajani, a Jordanian middleman in the BNL loans affair, "confirmed to me that he had an ongoing relationship with the CIA, the State Department and the US Department of Agriculture."

Mr Drogoul has agreed to plead guilty to three minor charges instead of facing a trial that could have earned him life in prison. He said the Rome office knew his Iraqi lending was maintained off official books and named Mr Giacomo Pedde, the former BNL director-general, and Mr Angelo Florio, former head of BNL's foreign division, as having known and approved of his Iraqi lending. When some members of the committee expressed scepticism about Mr Drogoul's allegations, he replied that he would make documents available shortly, including letters from US companies to BNL Rome.

During his congressional appearance Mr Drogoul also said the Italian government had asked BNL Atlanta to help finance the purchase of Sidewinder missile components: "It was one of several transactions routed through BNL Atlanta by the Italian military."

Court rules on harassment

By George Graham in Washington

THE US Supreme Court yesterday opened the door wider for employees to win lawsuits alleging sexual harassment at work.

The court reaffirmed its previous ruling that sexual harassment could be proved by a hostile or abusive work environment, and overturned lower court decisions which also required an employee to prove severe psychological injury as a result of the harassment.

In a unanimous decision issued yesterday, the court reinstated a case brought by Ms Teresa Harris against her employer, Forklift Systems, in Tennessee.

Ms Harris complained that Mr Charles Hardy, Forklift's president, had subjected her to sustained verbal harassment, suggesting, for example, that she retrieve coins from his trouser pockets or go to a motel to negotiate a rise in pay. A lower federal court had agreed Mr Hardy's behaviour was vulgar and offensive, but said Ms Harris had not shown that her psychological well-being was seriously affected.

By making it clear that psychological harm was not an indispensable condition for proving sexual harassment, yesterday's ruling broadens the possibility for employees to bring harassment suits under a federal law known as Title VII.

Justice Sandra Day O'Connor wrote in the decision yesterday: "Whether an environment is 'hostile' or 'abusive' can be determined only by looking at all the circumstances. These may include the frequency of the discriminatory conduct; its severity; whether it is physically threatening or humiliating, or a mere offensive utterance; and whether it unreasonably interferes with an employee's work performance."

Brazil president seeks to restore credibility

By Angus Foster in São Paulo

BRAZIL'S President Itamar Franco, his government almost paralysed by corruption allegations in Congress, yesterday made an important gesture to try to restore the credibility of the country's institutions by ordering that anyone in an elected or official post should reveal their property and income before taking the job.

The measure, which also applies to acting members of the executive, congress and judiciary, is the first time many elected and government officials will be open to scrutiny. The law is expected to come into effect soon.

President Franco's actions follow mounting concern among political leaders that corruption hearings under way, which are investigating allegations that a group of up to 30 politicians and ministers profited from fees and other payments channeled through the government's budget, are undermining the credibility of all the country's leaders.

So far one minister has resigned over the scandal, which is thought to involve several million US dollars, and the bank accounts of over 50 individuals and organisations have been opened to scrutiny.

Brazil's constitutional revision, seen as vital to solving some of the country's economic problems, was stalled again yesterday because of political problems stemming from the corruption hearings. The rules and working arrangements for the revision, which were due to be approved several weeks ago, were delayed again after corruption allegations threatened to bring down Mr Ibsen Pinheiro, a leading politician and the elected "reporter" or senior clerk for the revision.

Mr Pinheiro, the former president of Brazil's lower house and an important leader of the country's biggest political party, the Party of the Brazilian Democratic Movement, is the most senior figure to be linked directly to the corruption hearings.

He was a leading figure in the investigation of separate corruption allegations which led to last year's downfall of ex-president Fernando Collor. Mr Pinheiro is alleged to have received about $40,000 from another parliamentarian, Mr Genebaldo Correia, himself accused of receiving money from the alleged ringleader of the scheme, Mr Joao Alves.

Mr Pinheiro has claimed the payments were legal and transparent, although he has been unable or unwilling to remember why he received the money. He has claimed the allegations have been made by political enemies at a time when, because of excitement over the corruption hearings, it is difficult for individuals to prove their innocence.

Warren Christopher: told critics not to mistake his courtesy for a lack of resolve

Christopher's action may lift foreign policy team

Mr Wharton's duties were mainly bureaucratic, writes Jurek Martin

MR WARREN Christopher, the US secretary of state, is a man with the blandest of demeanours who normally moves with all deliberate speed. Only last week he was telling angry members of congress critical of his stewardship of foreign policy that they should not mistake his courtesy for a lack of resolve.

On Monday night, culminating weeks of deliberation, he acted out of his public character by forcing the resignation of Mr Clifton Wharton as his deputy in the state department. Mr Wharton, as his bitter resignation statement made clear, did not go willingly.

The glib interpretation is Mr Christopher's action, taken with the full, if reluctant, approval of President Bill Clinton, is that the administration needed a scapegoat for its foreign policy difficulties.

This hardly holds water, for Mr Wharton, previously a university president and pension fund manager, was never a key player in the foreign policy team. Apart from minding the fort while Mr Christopher was away, his main duties were bureaucratic and not exactly central to the continuing problems in Bosnia, Somalia and Haiti that have brought the administration so much grief.

Closer to the truth is the recognition that the "team" is not functioning optimally. With the president expressing confidence in its leading lights – Mr Christopher, Mr Les Aspin, secretary of defence, and Mr Anthony Lake, national security adviser – changes had to be made lower down.

The relationship between Mr Christopher and Mr Wharton had apparently become personally difficult, or, as the State Department spokesman put it, "had everything to do with his view of the job and the secretary's view of the job."

Mr Christopher places great emphasis on team play, both within the State Department and in its relationships with other key departments. He has reportedly been concerned of late that though inter-agency co-operation has not been bad (Haiti clearly excepted) it had not always succeeded in presenting Mr Clinton with agreed and coherent policy options. He also thought access to the president was not what it should be.

Whether a new deputy secretary of state can contribute to improved internal systems remains to be seen. Much will depend on who gets the job and how soon a successor can be in place.

Extensive background checks and congressional approval can both take time. Two prominent victims of these agonisingly slow processes are Mr Stephen Solarz, former congressman, still waiting FBI approval before being nominated as ambassador to India, and Mr Morton Halperin, targeted by right-wing Republicans opposed to his defence department appointment.

Still, Washington was buzzing yesterday with likely names for the Wharton position. Internal candidates, some difficult to move from their present jobs, include Mr Thomas Pickering, ambassador in Moscow, Mr Strobe Talbott, ambassador-at-large to the former Soviet states, and Mr Winston Lord, undersecretary for Asian affairs.

Mr Peter Tarnoff, in charge of political affairs and ranking third in the department, does not figure on most putative short lists, mostly because he was rebuked earlier this year for a speech he had given pointing to the limitations on US foreign involvement.

In the private sector wings, but with clear qualifications, are Mr Michael Armacost, ambassador to Japan until earlier this year, Mr Morton Abramowitz, the ex-diplomat who now runs the Carnegie Endowment for International Peace, Mr Don McHenry, former ambassador at the UN and Ms Rozanne Ridgeway, previously in charge of European affairs at the state department.

Mr Clinton has emphasised the need for diversity in his appointments.

Of the above only Mr McHenry, who is black, and Ms Ridgeway meet the criteria, which may, however, be waived in the pursuit of the right candidate.

Venezuelan rights undermined

HUMAN rights violations have increased in Venezuela since 1989 to such an extent that they call into question the government's commitment to protect them, the London-based Amnesty International says in a report published today, writes Stephen Fidler.

Security forces have "often responded with excessive and arbitrary force" to demonstrations protesting against worsening economic conditions.

Two military coup attempts last year led to a suspension of certain rights, including the rights to freedom of expression, assembly and peaceful demonstration.

Journalists have increasingly been harassed, attacked and even murdered by the security forces.

Criminal suspects, particularly in poor areas, are routinely tortured. Trial proceedings are constantly and arbitrarily delayed, often far beyond legal limits.

Meanwhile, those who violate human rights escape unpunished, it says.

Separatist swears his allegiance

QUEBEC separatist leader Lucien Bouchard swore allegiance yesterday to Queen Elizabeth II, Canada's formal head of state, despite his avowed aim of leading his French-speaking province to independence, Reuter reports from Ottawa.

Mr Bouchard had to take the oath to gain his seat in Canada's House of Commons and become the official leader of the opposition as head of its second largest party.

His Bloc Quebecois swept up 54 of Quebec's 75 seats in last month's general election, promising to lead the province to a referendum on sovereignty in 1995. The Bloc's success has placed new strains on Canadian unity and, ironically, earned the party the official title of "Her Majesty's Loyal Opposition".

Mr Bouchard has refused to live in the official residence of the leader of the opposition in the Canadian capital.

Guilty plea in Denny case

A defendant in the Reginald Denny beating case agreed to plead guilty to two misdemeanour charges and one felony count yesterday, in return for a sentence of lengthy probation, Reuter reports from Los Angeles.

Mr Antoine Miller, 21, served 17 months in jail while awaiting trial following the beating of Denny, a white truck driver, by a black mob at the start of last year's riots.

Gatt deal may enrich world by $270bn

By David Buchan in Paris

A GATT agreement could enrich the world by as much as $270bn (£178.8bn) by the year 2002, according to a study published by the Organisation for Economic Co-operation and Development yesterday.

This is the highest estimate yet of the overall benefits that could flow from a successful conclusion of the seven-year Uruguay Round negotiations. It is larger than the $213bn welfare gain estimated in a joint OECD-World Bank study in September because it calculates gains from cuts in non-tariff as well as tariff barriers in industrial goods trade.

France's prime minister Edouard Balladur said yesterday he had no faith in claims that mere signature of a Gatt accord would relaunch the world economy, in "fantasy growth figures, which some people promise us", or in fear that a Uruguay Round failure would make world trade any more problematic than it had been in the past seven years.

He also confessed alarm at the North American Free Trade Agreement debate in the US, in which some Americans were demanding further reinforcement of their country's means of unilateral commercial retaliation.

The French premier said he expected Europe's partners to make "the leap" necessary to unblock the negotiations before the end of this year.

Mr Balladur refrained from dismissing, as many of his ministers do, the December 15 deadline as "an American date only for the US Congress" convenience. He now appears to regard that deadline as real.

Mr Peter Sutherland, the Gatt director general, told the conference that Gatt's participants faced a clear choice. "They can either update and strengthen the multilateral system, or they can stand by and watch the centrifugal forces of economic nationalism tear it apart, and their future along with it".

Andrew Hills adds from Brussels: A high-level Commonwealth trade mission yesterday issued a strong warning to the US, EC and Japan not to endanger a world trade deal by delaying a conclusion or reopening issues which had already been settled.

Ministers from four Commonwealth countries yesterday spoke to Sir Leon Brittan, the EC's chief trade negotiator, on the second day of an eight-day mission. They said they were increasingly optimistic the Round could be concluded before the December 15 deadline.

Europe baulks at Hollywood's onslaught

Solution of audiovisual row may be in sight, writes Frances Williams

FEW areas of the world trade talks in Geneva have aroused as much public passion as US demands for more access to the European market for films and television programmes.

European film makers and broadcasters claim that Hollywood is intent on the destruction of their industry and, with it, Europe's cultural identity. Americans counter with accusations of censorship and cultural elitism.

Yet in the shadow of this war of words, US and European Community negotiators appear to be groping towards a solution acceptable to both sides. Although the details have not been worked out (and could still sink the deal), the basic idea is to preserve existing protection for the European audiovisual sector while preventing restrictions being tightened in the future.

The chances of a deal came a little closer on Monday when, at the EC foreign ministers' meeting, France appeared to drop earlier objections to making audiovisual services part of any Uruguay Round accord. Sir Leon Brittan, the EC's trade commissioner, has consistently argued that including the sector in the world trade talks would give the EC greater protection against unilateral action by the US to force further market-opening moves.

Although 116 nations are taking part in the Round, which is due to end on December 15, the audiovisual issue is essentially a bilateral argument between the US and EC. At its centre are longstanding US objections to the European Community's 1989 broadcasting directive, which from 1981 has required EC-based television channels to allot at least half their broadcasting time to European-made programmes "wherever practicable" (not counting news, sport, games or advertising).

Washington is also unhappy about subsidies for European film makers, especially as US movies contribute a big chunk of the funding through a film levy. In France, the only EC nation which still has a sizeable domestic film industry, subsidies of all descriptions run to FFr2.1bn (£240m) a year.

The European audiovisual industry believes that this support is essential to counter competition from cheap US imports, which have already recouped their costs in the huge domestic market. Even so, sales of US films and television programmes to Europe have soared in recent years.

TERMINATING EUROPE'S CULTURE? Arnold Schwarzenegger in Terminator 2 – Judgment Day

In 1991, US productions accounted for 81 per cent of EC cinema screenings, over 70 per cent of European box-office takings, and 54 per cent of all dramas and comedies broadcast on television. US audiovisual exports to the EC were $3.6bn (£2.4bn) last year, against a paltry $288m in European sales to the US.

Washington is evidently in no position to complain that it has insufficient access to the European market. US negotiators even concede that films and television programmes may require different treatment from trade in goods or other services such as insurance or accountancy.

But, at the same time, they want assurances that no new restrictions will be imposed on European sales of what is now America's second largest export industry (after aircraft). The US film and television industry has a turnover of more than $40bn a year, directly or indirectly supports 5m jobs and has a 40 per cent share of the rapidly expanding world market.

The EC proposal, now being drafted, aims to secure special protection for audiovisual services in recognition of their "cultural specificity". The Community's schedule of initial commitments under the framework services agreement, setting out what it is and is not prepared to do in opening services markets to foreign competition, will preserve existing broadcasting controls and film subsidy arrangements.

In the short term the EC would seem to be in a strong position, especially as the US has lost part of its negotiating credibility by deciding to remove ocean-going shipping from its own services schedule. Japan and some other nations such as Mexico favour the US stance, but the EC has solid backing from most of the rest of western Europe, Canada, Australia and India.

In the longer run, however, Europe may lose the battle of the quotas to the new technologies. Before long European consumers will have hundreds of domestic and foreign channels to choose from on satellite and cable. At the same time financial and creative links between Hollywood and Europe are steadily increasing. If filling quotas in the future will be difficult, policing them may be well nigh impossible.

BT to invest in satellite services

By Paul Betts, Aerospace Correspondent, in Dubai

BRITISH TELECOM is investing about $200m (£132m) in financing new satellite telecommunication equipment on board commercial airliners to position itself in the emerging market for aircraft satellite communication services.

The BT investment reflects the growing interest of international telecommunication companies in new airline satellite communication systems which, together with new satellite navigation systems, are expected to revolutionise commercial air transport over the next 20 years.

"The introduction of new satellite navigation and communication technology is expected to be as significant for the airline industry as the transition from the turbo-propellor aircraft to the jet in the 1950s," Mr William Fromme, director of the air navigation bureau of the International Civil Aviation Organisation (ICAO), the aviation arm of the United Nations, said yesterday at a Financial Times conference at the Dubai Air Show.

Mr Fromme said new satellite telecommunication and navigation systems were expected to improve sharply safety and airspace management and provide significant economic advantages to airlines. But according to the International Air Transport Association (Iata) studies one of the biggest pay-offs would for telecommunication companies because of the increased use of satellite telecommunications on board aircraft.

So far, about 300 aircraft have been equipped with satellite communication packages. The cost of installing this equipment on board is about $500,000 per aircraft.

Emirates, the Dubai-based airline, estimates that passengers could spend up to $100 a year each on on-board electronic shopping facilities.

Mr Richard Branson's Virgin Atlantic Airways also see onboard electronic shopping and entertainment as providing an increasing source of revenue for airlines to offset continued pressure on fares.

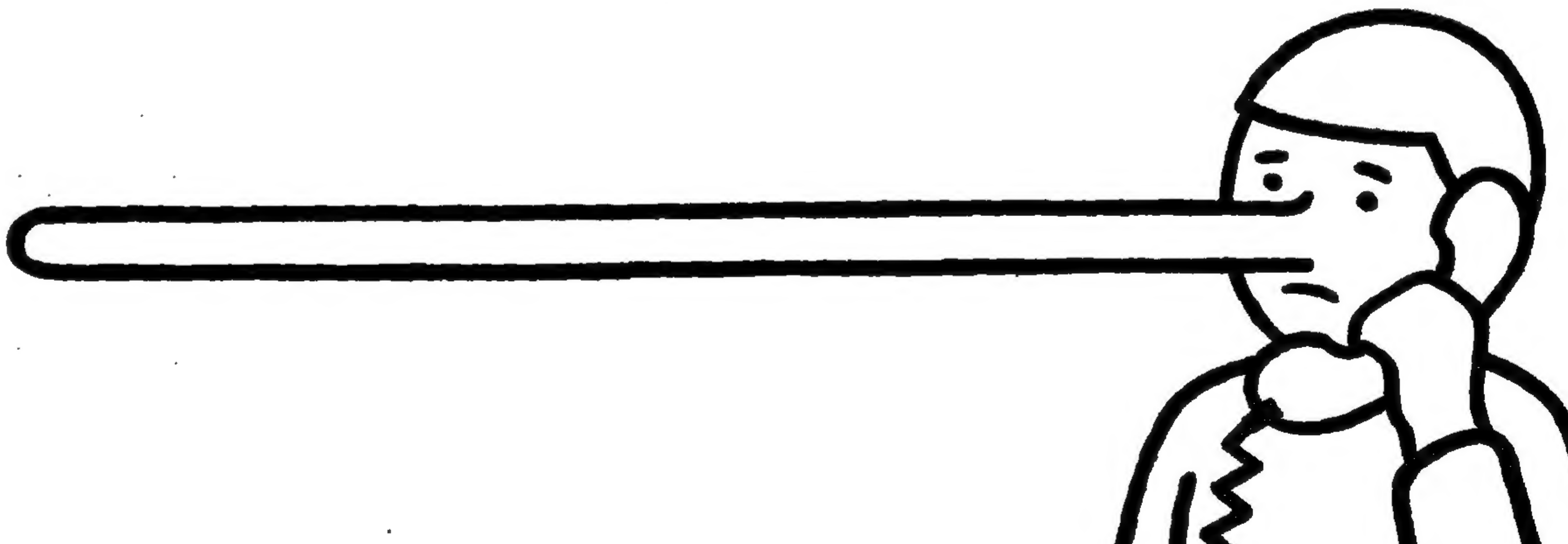
Gore and Perot braced for debate

THE frenzied lobbying over the North American Free Trade Agreement yesterday abated slightly as the major players awaited the next event in the campaign for passage: the television debate between Vice-President Al Gore and former presidential candidate, Mr Ross Perot, writes Nancy Dunne in Washington.

Leading up to last night's event were no fewer than three debates scheduled on or around Capitol Hill between various congressmen, senators, and economists. The Nafta and Beyond Commission staged a meeting on its impact on the US economy, while a House government operations subcomittee called witnesses on Mexico's refusal to extradite a suspect accused of sexually molesting a five-year-old girl.

USA*Nafta, the business lobby, announced new television commercials featuring Mr Bill Gates, Microsoft founder, saying: "Our manufacturing productivity is so much better here, we won't have to move jobs to Mexico."

The opposition released a letter from Mr Ralph Nader, the consumer crusader, accusing President Clinton of failing to make improvements to Nafta which he promised on food and truck safety, democratising procedures, and safeguards for workers and farmers.



Airlines face 60% rise in insurance costs

By Richard Lapper

INTERNATIONAL AIRLINES are facing increases of approximately 60 per cent in the price they pay for insurance cover as they negotiate renewals of annual contracts.

The rises follow several years of weak trading performance by aviation insurers, with claims from accidents and other losses regularly exceeding the amount paid in premiums.

The trend was highlighted by a possible claim for more than $100m after a China Airlines Boeing 747 overshot a runway and plunged into Hong Kong harbour earlier this month.

And it should signal improving prospects for profitability by underwriters at Lloyd's of London, which is a leading market for aviation insurance.

"Underwriters have lost money for a number of years," said Mr Matthew Day, of Willis Corroon Aerospace, one of the leading buyers of airline insurance.

Three out of four airlines renew covers in the last quarter of each year.

Rates vary according to the claims record of each airline during the previous 12 months. But according to figures published by Willis Corroon, many airlines which renewed their policies on 1 October paid steep increases.

Increases ranged from 147 per cent for hull cover and 110 per cent for its liability risks paid by one Asian airline to 31 per cent for hull and 54 per cent for liabilities for one smaller European airline.

Premiums for hulls range from 0.14 per cent to 0.6 per cent of value, a rate which means premiums for an airliner valued at $150m would range from $210,000 to $900,000. Liability premiums range from 0.2 per cent to 1 per cent of "revenue passenger kilometres", a measure of the airline passengers traffic used by insurers.

Following the increases, premiums for 1993 are expected to amount to $898m according to Willis, against $578m in the same period of 1992. Major claims have so far cost insurers about $300m (a figure which is understood to exclude the recent Hong Kong crash) although the market has also been hit by a large number of partial and "attritional" losses (in which aircraft are damaged rather than destroyed).

As part of the trend towards a tighter market, insurers have also pressed airlines to accept higher deductibles (the amount paid by the insurance buyer of each claim).

"This move is part of underwriters' overall strategy to tighten up the scope of coverage they are prepared to provide," said Willis.

The ability of underwriters to impose increases has also reflected the withdrawal from the market of a number of insurers, including syndicates at Lloyd's of London, earlier this year.

Move towards Chapter 11 code proposed

By Andrew Jack

COMPANIES IN financial difficulties would be able to gain powerful new protection from creditors trying to recover their money, under radical proposals issued by the government yesterday.

They would be able to gain a "breathing space" of 28 days renewable for up to three months while they attempted to put together proposals acceptable to 75 per cent by value of their creditors.

Banks - which generally take priority over other creditors - would also be bound by this moratorium and would be required to give 7 days' notice to companies of their intention to appoint receivers, under the suggestions circulated by the Department of Trade and Industry.

The moves represent a modest shift towards the Chapter 11 bankruptcy proceedings in the USA, and comes as the result of a working party set up in November last year to consider changes to insolvency law.

Mr Neil Hamilton, minister for corporate affairs at the DTI, said yesterday: "The proposals aim to create workable and affordable rescue procedures. We need to ensure these are fully utilised whenever a lifeline can be thrown to a company in danger of sinking."

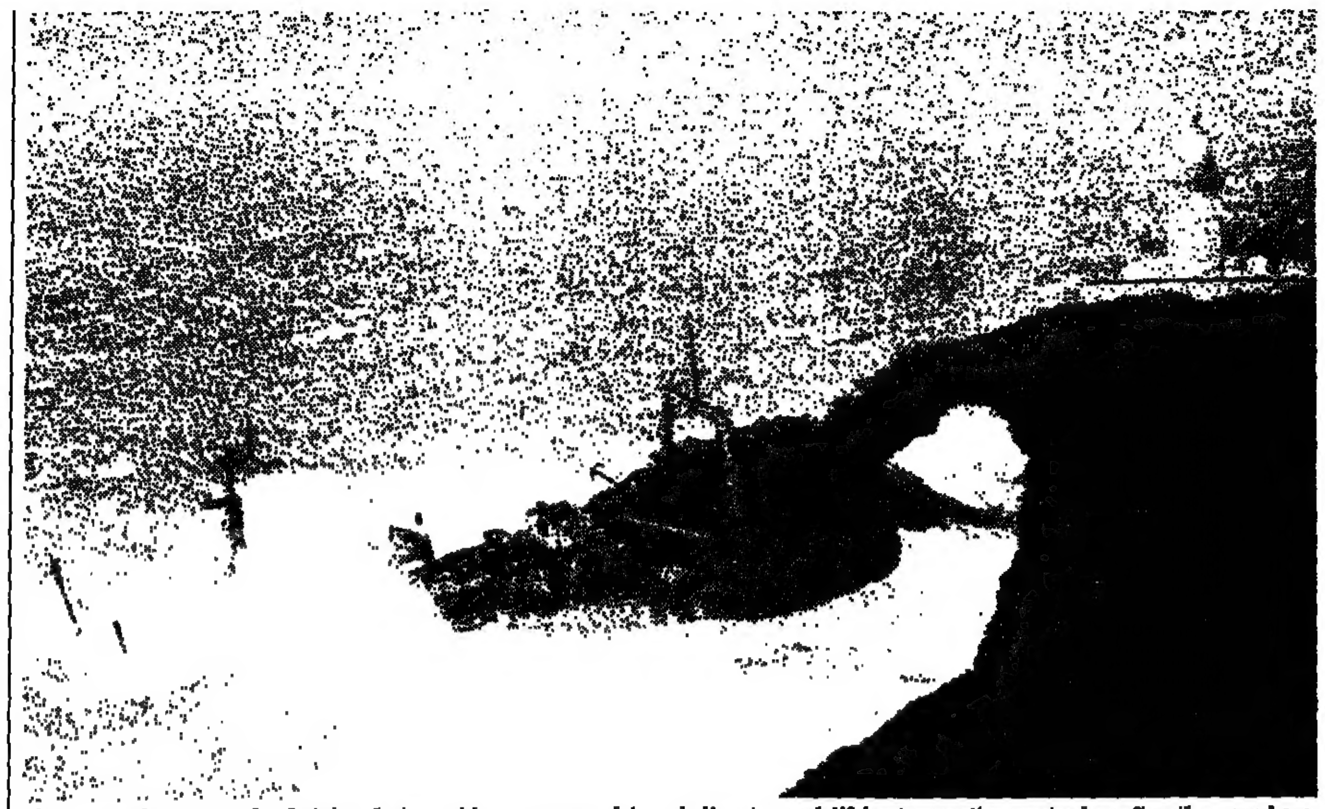
The DTI report covers proposed reforms to company voluntary arrangements (CVAs) and administration orders, which were introduced in the 1986 Insolvency Act but are widely acknowledged to have failed to live up to expectations. In the last three years, there have been just 296 CVAs and 447 administrations, compared with more than 66,000 liquidations.

The recommendations met with widespread initial support yesterday. Mr Richard Brown, deputy director general of the British Chambers of Commerce, said: "It certainly seems as if the DTI is aware of the problems faced by companies. At first glance we are pleased with the proposals."

The DTI's proposals suggest company voluntary arrangements should be subject to relatively low-level monitoring by a supervisor, who should be in a regulated profession but need not be an insolvency practitioner.

They say the company should possibly have access to new lenders to help with restructuring who would have priority over existing creditors. Shareholders would lose their rights to approve CVAs.

The DTI document also suggests amendments to administration procedures which would allow a professional adviser to be appointed for 28 days without having to submit a report to the DTI on the conduct of the directors, as the current law requires.



The 60-member crew of a Latvian factory ship was rescued in a helicopter and lifeboat operation yesterday after the vessel ran aground in gale force winds off the Shetland Isles. The coastguard said aircraft would overfly the Lunokhod to check for oil leaks

Talks on salmon production end

By James Buxton, Scottish Correspondent

NORWEGIAN salmon farmers, blamed in Britain and Ireland for driving down the price of salmon by flooding the market, have ended their talks with Scottish and Irish salmon farmers on creating a network of producer organisations aimed at controlling production.

Their move is in retaliation for attempts by Scottish and Irish farmers to obtain EC sanctions against Norway. Yesterday the Norwegian farmers urged their government to implement measures to curb over-production and called on other countries to limit output.

The UK government is believed to be on the point of making a formal request to the European Commission to impose limits on imports of Norwegian salmon into the European Community.

Salmon prices have fallen drastically in the past few weeks to levels last seen in 1991, when the EC temporarily imposed a minimum price on imported Norwegian salmon.

Most Norwegian farmers will not feed their fish for seven of the last nine weeks of 1993, curbing the fishes' growth and reducing projected output by 15,000 tonnes.

Yesterday the Norwegian association pointed out that salmon output in Scotland and Ireland is set to grow faster than their own, for the same reasons. The Norwegian farmers' termination of discussions on setting up producer organisations brought an angry reaction from the Scottish Salmon Growers Association.

"We have concluded that the Norwegian objective is to destroy the EC industry, which will enable them to exploit EC consumers in the future." He called on the EC to place an immediate limit on salmon imports from Norway.

Ceasefire hurdle for Ulster peace initiative

By Kevin Brown, Political Correspondent

THE Major-Reynolds Northern Ireland peace initiative could collapse because of the Irish government's apparent unwillingness to negotiate an IRA ceasefire, Mr James Molyneaux, the Ulster Unionist party leader, said yesterday.

Mr Molyneaux's warning followed a meeting with Mr John Major, the prime minister, at which he confirmed that the UUP is willing to keep the door open to a further round of talks.

However it further complicates the peace process, which has shown signs of stalling in recent days because of growing tensions between London and Dublin on the ceasefire issue.

The Rev Ian Paisley, leader of the hardline Democratic Unionist party, also tried to block the talks yesterday by declaring that he would "never" negotiate with Sinn Fein, the political wing of the IRA.

Dr Paisley, who had a separate meeting with Mr Major, said he had told the prime minister not to waste his time listening to "the blarney and the lying from Dublin."

He said Mr Major had told him that if the Anglo-Irish initiative failed, the government would reconsider DUP proposals for an internal settlement based on power-sharing devolution.

Dr Paisley's continued hostility to the Anglo-Irish initiative is a disappointment to the government, which had hoped that public pressure for peace would moderate the DUP approach.

However, Mr Molyneaux's growing suspicion of Dublin's motives is potentially a far more serious blow to the peace process because of the UUP's much greater support in Ulster.

Mr Molyneaux said that Mr Reynolds appeared to be "drifting away" from the terms of his joint statement with Mr Major in Brussels two weeks ago.

"The position which has been put forward by Mr Reynolds is causing such unease that it may in fact block sensible progress," he said.

Mr Molyneaux dismissed the Irish prime minister's suggestion that peace could be achieved by Christmas. "To obtain that, Mr Reynolds would have to make concessions which would be destructive of democracy in both ends of the island of Ireland," he said.

Deal may save code for press regulation

By Raymond Snoddy

A DEAL that could end the crisis over the publication of surreptitiously taken pictures of the Princess of Wales and take Mirror Group Newspapers back into the system of self-regulation operated by the Press Complaints Commission was starting to take shape last night.

Lawyers acting for MGN were holding talks with PCC officials as the most senior figures in the newspaper industry exerted their influence to try to avoid the breakdown of self-regulation and the inevitable government moves against the press that would follow.

Mr David Montgomery, chief executive of MGN, is making it clear he will enter negotiations on a return to PCC membership if Lord McGregor, chairman of the PCC, withdraws remarks which criticised the Daily Mirror and advocated a boycott of the paper by readers and advertisers.

There is anger at MGN that Lord McGregor appears to have prejudged a possible complaint before any of the evidence had been laid.

It is believed that senior figures such as Mr Rupert Murdoch, chairman of The News Corporation and Sir David English, chairman of Associated Newspapers, have now given informal undertakings that the attacks on the Daily Mirror by their publications will now cease in the interests of reaching a compromise.

Lawyers acting for the Princess of Wales yesterday went ahead with issuing two writs - one against MGN and the other against the LA Fitness Club in London where the unauthorised pictures of her working out were taken. The writs made it clear the Princess wanted to have both the illicit pictures and their negatives.

MGN says that staff from other newspapers have been harassing Mr Montgomery and Mr David Banks, editor of the Daily Mirror. A photographer took pictures of Mr Montgomery and his wife Heidi in an Italian restaurant on Monday night.

State schoolboys beat the fee-paying boys' network

By John Authers

STATE SCHOOLBOYS have taken over from the independent school 'old boy network' in UK company boardrooms, according to research by the London School of Economics.

Half the chairmen of the top 50 UK companies by turnover were educated at state schools, while a further six went to "top" grammar schools which were once state-funded via the direct grant and are now independent. In 1979, only 14 chairmen had been state educated. By contrast, only 15 of this year's chairmen went to fee-paying 'public' schools, compared to 28 in 1979.

Professor Leslie Hannah, of the LSE, who announced the figures in an inaugural lecture to the Foundation for Manufacturing and Industry, claimed the shift signalled the end of Britain's "anti-industrial culture", following many decades of domination of industry by the public school elite.

He said: "The trend favourable to business is now firmly established with continuing success in business recruitment of first-class honour graduates apparent in all recent decades. It seems that not only has there been a revolution at the top in the boardroom, but that revolution is firmly rooted in evolutionary cultural and educational change."

The shift has also been sudden. The apparent changes in the last decade are more substantial than those recorded in previous studies of the business elite over all previous decades of this century, taken together. Now the success of fee-paying pupils has fallen "to the level one would expect in a meritocratic society".

Mr Nigel Rudd, who chaired Professor Hannah's lecture, said this sudden shift was attributable to the grammar schools created after the war. "The reason is that people in the grammar schools of the 1940s and 1950s were extremely well-educated. There's certainly an anti-industry culture in the British upper classes, or at least there has been."

A similar, but less drastic, shift is also visible at the level of higher education, according to the LSE figures. While Oxford and Cambridge maintained their old positions it was pointed out that these became meritocratic institutions with a broadening admissions base. Birmingham University figured highly, while the LSE itself provided more top-company company chairmen than either Oxford and Cambridge.

UK lags behind in craft training

By John Authers

BRITAIN'S economic performance lags behind its European competitors because of insufficient training in crafts, according to a paper published by the National Institute of Economic and Social Research.

According to Professor Sig Prais, of the institute, 64 per cent of Britain's workforce has no vocational qualifications. In Germany this figure is only 26 per cent, and in Switzerland 23 per cent.

Britain's deficiency is most marked in "intermediate" craft qualifications, at a level including City and Guilds Part One and above, and BTEC national diplomas.

Only 18 per cent of Britain's workforce has such a qualification in craft, compared with figures of 33 per cent in France, 38 per cent in the Netherlands, and 56 per cent in Germany.

Professor Prais said the lack of qualified craftsmen had serious consequences.

Graduate engineers "far too often" have to undertake work elsewhere taken on by qualified craftsmen, which could lead to the lower rewards which engineers command in Britain.

The institute's investigations showed that machinery maintenance was routine on the continent, but in Britain was left to smaller "firefighting" teams of qualified craftsmen as the normal operators did not have sufficient qualifications.

In the clothing industry, a German qualified worker could reach efficient working speed on a new garment in three days, while an English operative would typically take three weeks.

Professor Prais also showed that English 13-year-olds' performance in internationally standardised mathematics tests has fallen over the last three decades.

In 1964, England already lagged behind Germany, the Netherlands and Japan.

When further standardised tests were held in 1990, England's average score of 59.5 per cent was ahead of 55.3 per cent by the US, but behind Switzerland (71 per cent), Hungary (68) and France and Italy (64). The two far-eastern countries to take part, Korea and Taiwan, both achieved 73 per cent.

Again, English education was weakest for children of lowest ability, with three times as many low-achievers in England as in Switzerland.

QUALIFICATIONS: HOW THE UK COMPARES*

	UK 1989	France 1988	Germany 1988	Netherlands 1989	Switzerland 1991
Degrees	11	7	11	8	11
Vocational	25	40	63	57	66
Technical	7	7	7	19	9
Craft	18	33	56	38	57
Non-vocational	64	53	26	35	23

*Selected years 1988-91. By percentage of economically active people

MATHEMATICS: HOW ENGLAND COMPARED*

Score	England	France	Germany	Netherlands	Japan	US
0-5	24	14	8	10	8	22
6-30	49	66	59	57	38	62
31-51	22	16	30	25	40	14
51+	5	2	3	8	14	1
Average	19	18	25	24	31	16

*Scores in international tests for 13 year-olds in 1963-64

Daggers drawn as sides square up over defence cuts

Kevin Brown on horsetrading and mudslinging between armed forces and the Treasury

AIR CHIEF Marshal Sir Michael Graydon, chief of the British air staff, is not a man given to dramatic public statements. So when he accuses the treasury of running a "disreputable" campaign to discredit the services, Westminster sits up and takes notice.

On Monday night, Sir Michael accused the Treasury of portraying the military as "fat, inefficient and poorly organised" in order to lay the groundwork for swingeing defence cuts in this month's Budget.

Sir Michael named no names, and he apologised yesterday - after pressure from the defence ministry - for any embarrassment he may have caused ministers.

But his outburst raises a series of questions about the role of the Treasury, the service chiefs and their political masters at the defence ministry in the Budget debate.

Defence sources pointed the finger of blame squarely at Mr Michael Portillo, the steadfastly right-wing chief secretary to the treasury, who has argued strongly for public spending restraint.

Mr Portillo last night denied any involvement in Treasury leaks. But officials across Whitehall were pointing out that there was nothing unusual about this year's public spending round, which followed much the same course of leak and counter-leak as those in previous years.

If battle was joined with greater verve than is usual, it was because the defence budget is one of the few big areas of discretionary spending which could be cut to keep public spending within the agreed control total of £254bn.

In the event, Mr Malcolm Rifkind, the defence secretary, fought off demands for cuts of up to £1bn this year, and settled for a reduction in the defence budget of £1.3bn over three years.

The agreement was preceded by a great deal of horsetrading, during which the treasury drew journalists' attention to various military inefficiencies which could be exploited to yield savings.

These ranged from the comic to the dramatic. One minister suggested that worthwhile savings could be achieved if the services gave up their jealously guarded separate facilities for making false teeth.

At the other end of the scale, there were suggestions that the British tanks in Germany were useless as a fighting force because of lack of air cover.

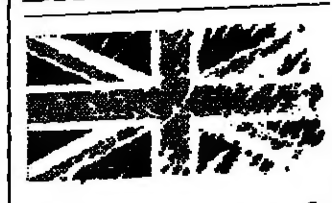
Defence chiefs seem to have been most upset by suggestions that there were too many senior officers - particularly in the army and the navy, which was said to have more than 40 admirals who never went to sea.

While the Treasury was quick to exploit some of these suggestions in its campaign for spending cuts, the defence chiefs are making a mistake in identifying Mr Portillo, or his civil servants, as the source.

In short, there was no organised Treasury campaign to undermine the defence forces. But there was a behind the scenes campaign by the defence department to mobilise backbench Tory opinion against the proposed cuts.

That campaign, which culminated in a threatened rebellion by Tory MPs, was clearly assisted by a much publicised visit by Sir Michael and the other defence chiefs to complain about the potential impact of cuts in spending.

Britain in brief



Venture deal to build six outlet malls

BAA, the airports operator, has formed a joint venture with McArthur/Glen, the US property developer, to build six US-style factory outlet malls in the UK at a cost of about £40m.

The venture expects to announce its first two UK sites within the next few months, as well as two sites in France. Further UK sites will be developed over three years, and if these and the French developments are successful, the venture will expand into the rest of continental Europe.

Factory outlet shops sell surplus and end-of-season stock from branded manufacturers at prices about a third lower than the high street. Although there are more than 1,100 such shops, malls where the shops are grouped together are relatively new to the UK.

Charge cards for overseas

Competition in the fast growing market for telephone charge cards was given a boost yesterday, with the launch of a range of new cards by Mercury Communications, the main UK competitor to British Telecommunications.

Mercury claimed that its cards offered "substantial savings" on long-distance tariffs for BT's "chargecards". They also offer new features such as the capacity to call from abroad without using an operator.

Charge cards allow customers to use pay phones and private handsets besides their own and charge the cost to their home account, or that of their company.

ILO forces spy ban talks

Sir Robin Butler, the cabinet secretary is holding discussions with government administration union leaders today about the possibility of ending the ban on trade union membership at GCHQ, the secret government listening base at Cheltenham, western England.

The discussions, arising nearly 10 years after the membership ban was imposed by Lady Thatcher, have been called in an attempt to secure an arrangement that will save the government from an embarrassing censure by the International Labour Organisation. The government was effectively forced to the negotiating table by the ILO which had threatened to single out Britain as the first industrialised democracy to breach its convention on freedom of association.

SA television ban lifted

British television programmes can now be viewed in South Africa after a long-running ban on their sales was lifted today by actors' union Equity.

The ban was introduced in 1976 because members feared their black and Asian members could be discriminated against when it came to choosing programmes to screen there.

Equity members voted 5,264 for lifting the ban and 1,735 against.

Generator to close plant

National Power, the UK's largest electricity generating company, is today expected to unveil plans to close its Staythorpe, Nottinghamshire, central England, power station in a move which will emphasise a sharp decline in demand for coal.

Waste tyre burner opens

The first UK plant to produce electricity from waste tyres formally opened in Wolverhampton, western central England, yesterday. Owned by Elm Energy & Recycling, a subsidiary of NIPSCO, the Indiana electrical utility, the plant cost £47m and will recycle 10m tyres a year, 21 per cent of the tyres discarded in the UK.

Follow that tortoise...

Police officers were today going on the beat in an electric patrol car with three-wheels and a top speed of 40mph. Electric cars are widely used in the United States. Now they have been introduced in West Yorkshire, northern England.

"It has little practical use for chasing criminals but we feel it is very good PR because it can be virtually used as a mobile police station," said a spokesman. The car being tested is the £13,000 British-made Cushman Zev.

Rollercoaster deal in the can

A £1m sponsorship deal for the world's tallest and fastest rollercoaster was announced by its operators, Blackpool Pleasure Beach. Pepsi Max, the soft drink manufacturer, has signed up for the five-year sponsorship for the ride which will be known as Pepsi Max - The Big One.

The £12m ride is still under construction and will open next spring. It is the most expensive ride in Europe and is 10 feet higher than the world's tallest ride, the Steel Phantom in Kennywood Park, Pennsylvania, US.

The 235ft tall construction will have aircraft warning beacons. It will be a mile long and its three trains will reach speeds of 85mph.

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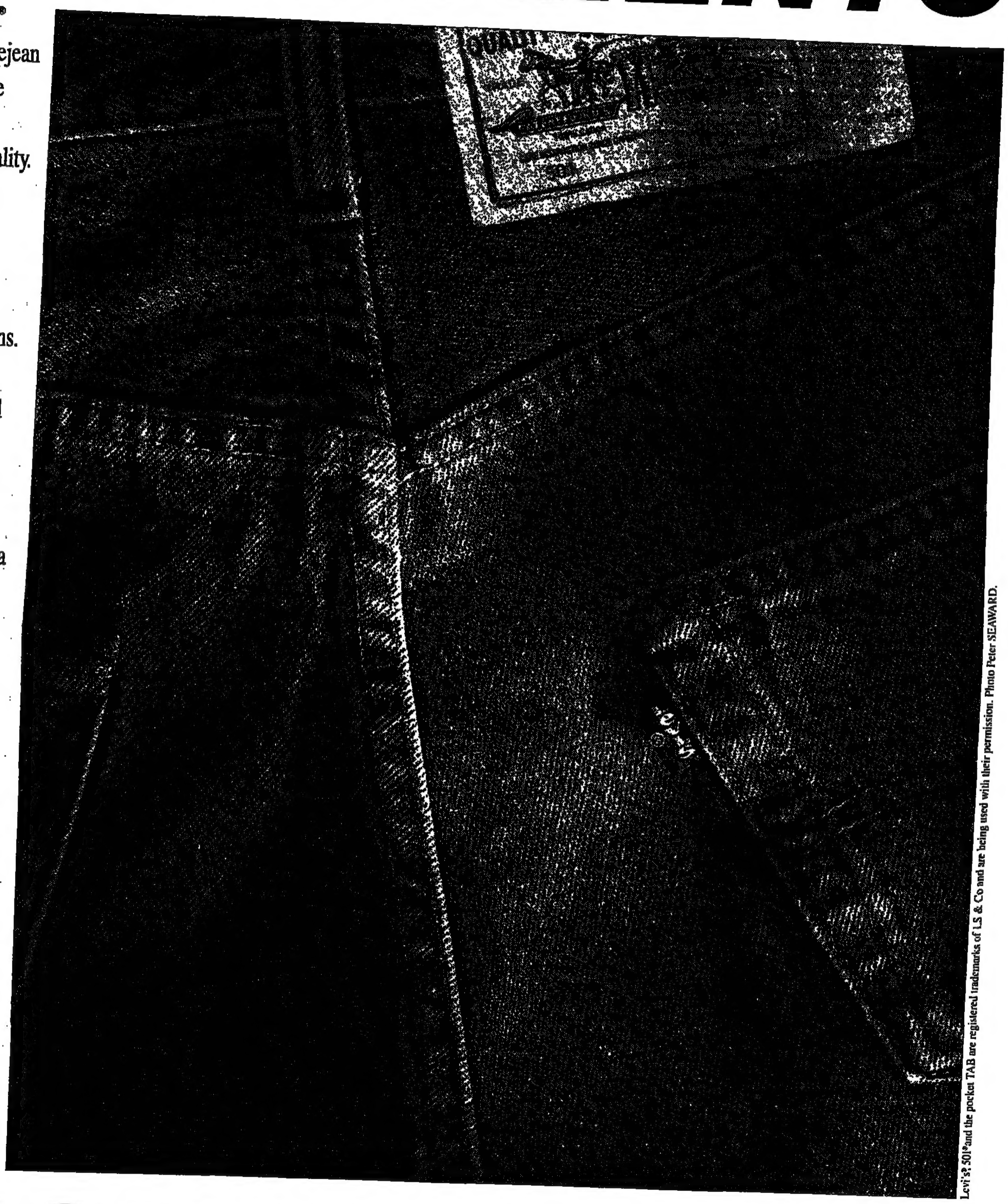

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PEOPLE

Willett returns to retail life at Littlewoods

Bob Willett has been appointed managing director of Littlewoods stores, the chain store division of the private retail and football pools group.

Willett, 47, resigned as chief executive of Gateway, the trading subsidiary of Isosceles in October last year when the heavily indebted food retail company was in the throes of a financial restructuring. He had come in for criticism as Gateway had missed trading budgets. He had had a three year contract at £195,000 a year.

He first joined Gateway in 1987 from Owen Owen, the department store group, where he was operations director. He started as non-foods director and became marketing director a year later.

When David Smith launched a leveraged bid for Gateway's parent Dee Corporation in spring 1989, Willett and three other Gateway directors supported the bid and were suspended by then chairman Alec Monk. After Smith's £2.1bn bid succeeded, Willett returned as chief executive of Gateway.

He survived the departure of Smith in autumn 1991, when the group was already having difficulty meeting its onerous debt commitments, only to fall a year ago.

After leaving Gateway, Willett attempted to buy a retail business with venture capital backing – rumoured to be the Mark One chain of budget fashion shops – but he has now returned to big store life.

Willett takes over from Bryan Mayoh, who has filled the MD's position at Littlewoods chain stores for the past few months – a position which had previously been vacant since the departure of Bill Huntley who moved to head Littlewoods' home shopping division three years ago.

Mayoh has been promoted to managing director of Index, the catalogue shopping division, to succeed James Higginbotham, who is recovering from major heart surgery.

Mayoh began his career at Littlewoods in the mid-1980s in the computer section of the group management services department. He became director of management services; and then moved to the home shopping division as director of credit and collections.

Higginbotham, managing director of Index since October 1988 during which time the chain grew from 75 stores to its present 126, is expected to return to work next spring, to head a group project designed to improve Littlewoods' operating efficiency and profits.

Littlewoods also recently created two new directors' posts. Janet Rubin, who has held senior human resources positions in Burton group, Kingfisher's B&Q, and W.H. Smith, has been appointed group human resources director.

Christopher Baker, for several years a business consultant to Littlewoods, has joined as corporate strategy director, responsible for exploring strategic opportunities and long-term group development. His previous experience was with Coopers & Lybrand, Hill Samuel, Morgan Grenfell and the Treasury.

Knox coaxed over the fence

In the first week of October, Patricia Knox, assistant city editor of the Evening Standard, published the results of a wide-ranging survey on what the financial community felt about the stock exchange's future which began "Down but not out – that is the current condition of London's much-criticised Stock Exchange".

Shortly thereafter the head-hunters were on the phone, and yesterday Knox was appointed chief press officer of the stock exchange, a post that has been vacant since Gill Ackers joined financial pr company Brunswick in early August.

Knox, a 46-year-old Canadian with a degree in English and French from the University of Minnesota, has spent the past 17 years at the Standard. "At least I know why the press has sometimes got cross or has misunderstood the exchange," she says of her move to the other side of the fence.

The stock exchange has had a turbulent year, coming in for fierce criticism over the Taurus fiasco and losing its chief executive as a consequence. But it has finally found a replacement for the latter, a *City figure who will be identified tomorrow* . So does Knox know who her future boss will be? "No, that would be tempting the Chinese Walls a bit too much, wouldn't it?"

Insurance moves

■ Peter Ward, managing director of COMMERCIAL UNION's UK division, is stepping up to become part of the triumvirate of senior managers at the top of the UK's leading composite insurance company. Ward, 51, becomes an executive director alongside Tony Wyand and John Carter – whose appointment as chief executive, following the retirement of Tony Brend, was announced in July.

From the beginning of next year, the UK division will be divided into two businesses. Ian Reynolds, 50, takes over as general manager, life. Cees Schrauwers, 46, general manager, non-life, will add London market operations to his existing responsibility for general insurance. Separately Michael Ford, group European manager, is to retire on March 31 after 35 years' service with the group. He will be succeeded by Roy Kemp, 50, currently a UK divisional director responsible for finance and planning.

■ A series of appointments has been made to the new group executive board of SEDGWICK NOBLE LOWNDES following the merger of Sedgwick Consulting Group and Noble Lowndes Group on October 1. Rob White-Cooper, chairman of Sedgwick's consulting operations group, has been appointed executive chairman of Sedgwick Noble Lowndes. David Strauss has been appointed group managing director, Europe. He was previously chairman of European operations of Sedgwick Consulting Group. Peter Brew has been appointed group managing director, Americas and Asia Pacific. John Montague has become group finance director, moving from his position as group treasurer at the Sedgwick group.

■ Bill Wedlake, formerly finance director of J. Henry Schroder Wagg, has been appointed finance director of GRE (UK), part of GUARDIAN ROYAL EXCHANGE.

■ John Sidwell, formerly group chief internal auditor, has been appointed finance director, ROYAL Life Holdings; he is replaced by David Lewington, who moves from Nationwide Building Society. Gary Richards, formerly group controller of Enskilda Corporate, has been appointed finance director, Royal Insurance Global. David Heather is appointed finance director of Royal Life Estates on the resignation of Ron Way.

■ Howard Bibby, formerly a partner with St Quentin, has been appointed md of Leslie Lintott & Associates, part of LONDON AND MANCHESTER GROUP.

■ Robert Ward and Alan Brooks have been appointed directors of HORACE CLARKSON.

Rowland changes his power base

Chris Rowland, former electricity analyst at Barclays de Zoete Wedd, has returned to *the City after failing to persuade* electricity generators National Power and PowerGen to sell him plants they no longer wanted.

He has been recruited by Merrill Lynch to cover European electric utilities including the two UK generators. It is just eight months since he quit his BZW job to set up Cabah Energy with the aim of operating the generators' discarded units. But Rowland refuses to blame the generators for his lack of success. "I failed to make offers which were attractive enough to the generators," he says.

However, his return to the City will reinforce the view that the generators will fight hard against calls that they sell off plant. National Power has publicly expressed strong reservations about selling off plant it wants to close, although it has indicated it is willing to talk about less marginal stations providing the price is right.

Rowland, 38, one of BZW's longest serving analysts before he quit, said yesterday that even if National Power's and PowerGen's plant became available he would no longer be interested. "The competition would be too great."

MANAGEMENT

The lives of 3M's managers have been transformed by a Europe-wide reorganisation, writes **Christopher Lorenz**

Here, there and everywhere

Until last Easter Claire-Noelle Bigay worked solely within France, as a national marketing executive for two lines of medical products from 3M, the US multinational which makes things as diverse as computer discs, video tape, road signs and Post-it notes.

Now the 29-year-old Bigay spends more than a third of her time travelling outside France as one of six members of the new European "core team" for one of those product lines, surgical tape. Her immediate colleagues are two Britons in the UK, a Dutch woman in Germany and a Belgian and an Italian both based in Brussels – the latter is the team "co-ordinator". They all communicate in English.

Apart from dashing around France, where Bigay still spends two-thirds of her time, mostly in direct contact with local customers, the country she visits most is Germany, where she has a second European responsibility: transferring to her local German counterpart her product expertise. Her German is as fluent as her English.

Bigay is one of about 1,000 managers at almost every level within 3M in Europe, many of them in their late 20s and 30s, whose lives have been transformed this year. As part of a radical reshaping of the company's European organisation, they have been given permanent and/or project responsibilities across national borders.

The reorganisation, which took effect in January, has several unusual characteristics. These make it more far-reaching yet also more subtle than the ways in which most other multinationals are adapting themselves to the emergence of cross-border customers and distributors, the consequent need for faster European decision-making and other aspects of the slowly emerging "single market".

Unlike other companies which have pulled back from their initial enthusiasm for spawning "Euro-managers" able to operate with ease across national boundaries, 3M is breeding them like rabbits. This is in character with the internationalism of its top management.

"For a US company, 3M has done a remarkable amount since the 1970s to make international experience a key to top careers," says Christopher Bartlett, an Australian-born professor at the Harvard Business School. Bartlett's writings with Insead's Sumantra Ghoshal on "transnational" organisations had a direct influence on the shape of 3M's new European structure.

The reorganisation consists of two main steps. 3M has taken them together, whereas most other companies have done so in sequence, sometimes over a decade.

3M's new European Business Centres

BRUSSELS
Tapes & adhesives
Commercial & consumer
Traffic, graphic & safety products
Medical products
Electro products

ANTWERP
Chemicals

LOUGHBOROUGH
Pharmaceuticals

BRACKNELL
Abrasive technologies
Personal & environmental protection products
Photocolour systems

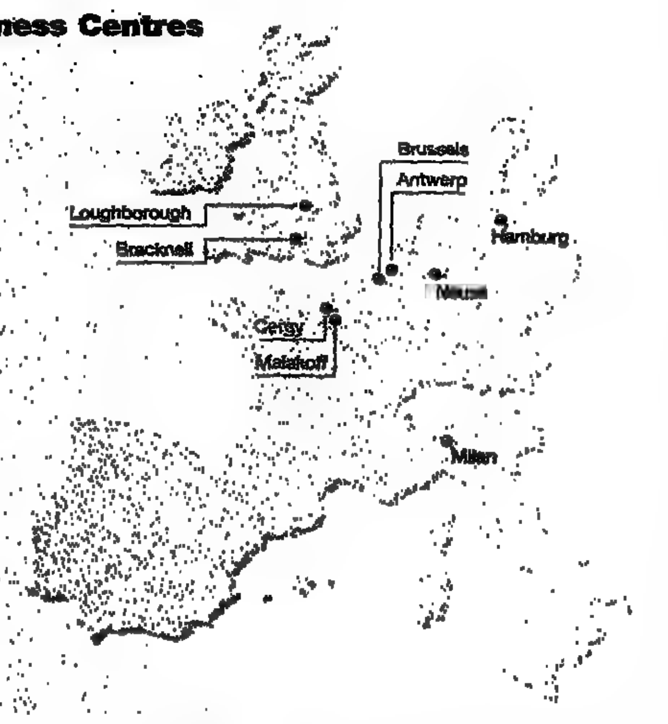
HAMBURG
Telecom systems

NEUSS
Disposable products
Automotive & aerospace
Hardgoods & electronic resources

CERGY
Data storage products & visual systems
Audio & video products

MALAKOFF
Dental products

MILAN
Printing systems
Medical imaging systems



First, in the interests of greater cross-border effectiveness and faster decision-making, 3M has shifted most strategic and operational responsibility away from its national subsidiaries (the geographic side of its organisation), and centralised it in the hands of 19 product divisions, each with Europe-wide responsibility.

It calls these European "Business Centres" to distinguish them from their counterpart "groups" and "divisions" in the US. But each European and American entity reports to the same global boss – all but one of them based in the US.

Second, the residual geographic responsibilities – now confined primarily to support services such as staff development, logistics, information technology and finance – have been shifted from the smaller countries to several of 10 new European "regions". Three cover France, Germany and Italy, but the Nordic, Iberian and central European countries are now combined, as are the UK and Ireland.

Unlike many other companies which have made such a change, 3M has given the regional heads equal rank to the EBC managing directors. It is also retaining full-time country managers in most countries. The purpose is to ensure that 3M's geographic managers not only represent the company in their local communities but – a point 3M stresses – they retain enough persuasive power with the EBCs to ensure that these continue to be responsive to national differences.

The risk for any type of European organisation is that it will lose touch with local customers

The risk for any type of European organisation is that it will lose touch with local customers. As Livio DeSimone, 3M's Italian-American chairman and chief executive, says: "You need the right blend of global direction and local responsiveness."

Thanks to a lengthy period of cross-border consensus-building since 1982, the change has been accomplished remarkably quickly.

3M originally planned to create the EBCs gradually over three or five years. But because of the enthusiasm of the EBC heads and their wish to secure the best possible teams and minimise the insecurity of less senior staff, it was completed in only 14 months.

Many companies lay false claim to the fashionable "transnational" label when almost all their international divisions are still based in the same country. But 3M has spread its EBCs across five: Belgium (where its long-standing European head office is based), Britain, France, Germany and Italy. This principle of dispersal has also been applied within many EBCs, and inside the 33 smaller European Business Units beneath them, by locating the members of each management team not all on one site, but across Europe. Thus the tapes and adhesives EBC is based in Belgium under a Frenchman, with two of his four immediate subordinates located in France and Germany.

This arrangement has minimised the need for costly and disruptive staff relocations across Europe. Doug Hanson, 3M's vice-president for Europe, says that fewer than 40 managers have had to relocate. The intention was always to distribute the EBCs around Europe, in order to use 3M's existing sites and resources. But he says: "We originally thought we wanted everyone *within* an EBC located together."

That would have involved massive relocation. "After discussion, we decided that with modern communications and people's wish to stay in their home country, this wasn't necessary."

The location of each EBC and its constituent business units was decided on the basis of "where it made most sense", insists Hanson, rather than through internal political wrangling or even-handed "corporate citizenship" towards each main country. This is less implausible than it sounds, since 3M already had a reasonably balanced pattern of sites across Europe, including production bases for the whole region designated in the 1960s.

"Where we had a big manufacturing site, we located the EBC there," says Harry Hammerly, Hanson's boss, who now oversees all international operations and corporate services from 3M's headquarters in St.Paul, Minnesota.

Thus chemicals went to Antwerp, printing products to Italy, traffic signs and safety products to Brussels and computer discs to France. "We were very careful not to locate an EBC in a country because the right leader for it was of that nationality," Hammerly adds. EBCs in several countries are run by people of other nationalities, including a Briton in Germany, an Italian in France and a German in Italy.

The main exception to this pattern was with abrasives, where Hanson says the relative size of existing operations made the EBC's location "a toss-up" between France, Germany and the UK – which won, under the best man for the job, a Briton. But "he has been careful not to select Brits to shore himself up", says Hanson. Two of the three business units beneath the abrasives boss are outside the UK, in France and Germany.

As Hanson says, this type of "network", is by definition "less tidy and controllable than traditional forms of organisation". It also requires new approaches to co-operation and teamwork.

A second article will examine how 3M managers are adapting to the new organisation.

Building a better rocking chair

Lucy Kellaway meets Robert Fritz, America's eclectic guru

The publicity announcing the arrival in Britain of Robert Fritz, the latest management guru from the US, describes him as composer, film maker, author and management consultant, in that order.

He has just finished making a psychodrama for television about a boy who is injured in a car accident, suffers brain damage and finds his relations with the outside world changed forever.

With that sort of background one would expect a pretty alternative view of management. At the very least he might be relied upon to be a devotee of new theories of corporate creativity.

Yet this ex-clarinetist looks like a Wall Street banker and says firmly that he is "not interested" in creativity. He deplores the fashionable psychological theories which suggest managers need only get themselves into a creative "mindset" and all their bad old ways will be changed overnight.

What matters, he says, is not creativity but creating. In order to create something it is necessary only to know what the goal is, and what steps to take to get there.

This is his battle cry: that companies, like composers or film makers, need to have a clear idea of what they are there for and what they are trying to do.

"It sounds so simple. Everyone tells you: we do that," says Fritz. Yet his contention is that they do not. He has trawled round companies asking them where they want to go and has discovered that most have no idea.

"Their first reply is usually a combination of ideals, vague statements that don't mean anything and solutions to problems they haven't named. Very seldom do you find someone who knows what they are after."

Fritz argues that companies must first understand how they generate wealth. He says that if you ask most chief executives they only have a hazy idea.

From this lack of clarity stems all sorts of problems. Companies may have several conflicting goals that vie for attention, with the result that it oscillates between them. Fritz calls these companies "rocking chairs".

The behaviour that follows comes in many forms. The recent "downsizing" by corporations is a good example. Companies have never stopped to work out what their capacity costs them, and so can find themselves in a cycle where they over-expand when times are good and contract too much when times get hard.

Another common "rocking" pattern is between centralising and decentralising decision-making. Companies want to grow and to do so they decentralise decision-making. This leads to a loss of control and a desire for stability, which in turn makes them centralise decision-making. After a while the company decides it wants to grow and the process starts all over again.

The answer, says Fritz, is for companies to recognise their desire both for growth and stability at the outset and work out which one is most important. They should pay attention to what he calls the structure of their organisation.

Structure, as he conceives it, describes all the relationships in the organisation; the reason for the rocking chair is poor structure. The company might have conflicting goals, it might have reward systems that conflict with company values. For example, many companies try to encourage teamwork or to get different departments to work together, but persist in handing out rewards based on the performance of the individual or the department.

Whatever the structural flaw, it must be sorted out before any new management idea has a hope of working.

Fritz's favourite image is that of a car that pulls to the left. "If you want to go straight you must pull to the right. But most advisers will say that if you want to go straight you must steer straight. If you do that, it will not work."

His point is that if you do not understand the structure, you will never get anywhere.

Matthew Kaminski examines attempts to improve standards at the Ignalina nuclear power plant

Lithuania's pressure cooker

The factories which built the equipment for the world's two biggest nuclear reactors stand empty along the road through Lithuania's national forest. Disused construction cranes peer over the birch trees, pointing the way to the Ignalina nuclear power plant.

Their job is not finished and probably never will be. Two RBMK, light water, gas-cooled or "Chernobyl-type" reactors were built at Ignalina before public unrest and environmental pressures stopped work on the third plant in the mid-1980s. A fourth was planned, but not begun.

Since Lithuania's independence two years ago, alarm over safety at the Soviet-built power station has prompted western countries to increase their safety efforts.

The work is being led by Sweden, just across the Baltic Sea. The Swedish government has paid SKr70m (£5.8m), with another SKr53.2m due next year to improve the reactors and train workers ahead of a total shut-down, likely to be some years off.

Much of the Swedish aid addresses the safety concerns voiced by the plant's management in a report last February by the International Atomic Energy Agency. These can be met by hardware purchases such as a better steam pressure relief system.

ABB Atom, the nuclear energy division of Asea Brown Boveri, the Swiss-Swedish engineering group, has been contracted to provide a robotic tool to descend into the reactor cavity's high-radiation areas and improve the steam pressure relief system.

In the chain reaction that heats water to boiling point, fuel rods containing uranium dioxide are used; the mixture of steam and water goes to a steam separator and then to the turbines, producing electricity. The danger is that if too much radioactive steam is released, the reactor cavity – about twice the size of those in the west – could burst.

Without Ignalina, most Lithuanians, already with no hot water, would live in the dark

Normally, when pressure valves break, the steam is channelled to a condensation pool. But Ignalina can only withstand a rupture of four valves, below western norms. If more break, there is a risk of contamination. So ABB Atom will help install a new pressure relief pipe connecting the reactor cavity to a condensation system.

Even bigger than the risk of contamination, however, is that of fire. Its consequences, the IAEA says, could be "severe".

Vattenfall, Sweden's state power company, has contracts to provide extinguishers, masks, a fire and hydrogen alarm system and improve the sprinkler system to prevent overheating.

But none of this equipment can be delivered until the Lithuanian parliament approves a law under which the country accepts liability for nuclear accidents. This is expected to happen next year.

However, other projects are running more smoothly. Engineers from another ABB unit, ABB Tekniska Röntgen-centralen, are performing tests at the reactors, including inspection of the 1,661 water-cooled fuel channels.

It has developed an ultrasonic scanner to spot welding defects in the channels' upper sections. These cracks pose no immediate threat. But, says Peter Schaub, an ABB engineer: "All defects are dangerous in a nuclear power plant. We have to help the plant people understand that defects are not acceptable."

The scanner has detected hundreds of so-called "weld root defects", which have been fixed. Yet the whole process could take years. Cracks develop over time and frequent inspections are needed. Thus the plant only operates one reactor at a time, allowing inspectors work at the other.

There have been many changes at Ignalina since 1986. Control systems have been upgraded, fuel channels loaded with extra absorbent rods to enable them to withstand more heat and shut-down speed accelerated. To minimise risk even further, the plant only operates at 1,300MW, below its capacity of 1,500MW.

"We've done everything to prevent another Chernobyl," insists Viktor Shevaldin, the plant director. But not everyone shares this optimism. Two Danish Euro-MPs touched off a flurry of disquieting press reports in Copenhagen about Lithuania's "Chernobyl-to-be" by vividly describing safety problems at Ignalina and calling the ABB Atom efforts inadequate.

Certainly, the decade-old plant, with its gigantic twin reactor and turbine halls, looks far older than its years. Paint is peeling and machinery seems outdated. A radiation monitoring machine for workers has not been turned on.

A 1cm crack in the cooling system almost caused a significant accident last year; faulty valves, similar to those held responsible for the 1991 accident at Sosnovy Bor near St Petersburg, were inexplicably found in the reactor this summer. A turbine cooling pipe broke last month.

Structurally, the problems are serious. The Swedish moves are only the first in the improvement programme at Ignalina. Tord Sterner, vice-president for nuclear services at ABB Atom, says other necessary work includes the installation of an emergency feed water system, modernisation of the control systems and the updating and replacing of more equipment.

Yet there are limits to what can be achieved. Unlike western plants, for example, the reactor building cannot be encased to help withstand a potentially disastrous steam release during an accident. "You cannot make it as safe as European reactors because that's the way it was built," says Morten Sondergaard, an EC Phare (aid for eastern Europe) programme consultant at the Lithuanian ministry of energy.

Away from the reactors, spent fuel is stored inside water pools, which are almost full. Germany's Gesellschaft für Nuklear-Behälter has won a contract to put the spent fuel in dry storage containers designed to last 50 years. The Lithuanian government is today expected to approve the contract with GNB, which outbid Ontario Hydro of Canada.

Another problem is security. A 7m-long, spent fuel shell, full of radioactive material, disappeared from the plant this summer. Also causing concern since the break-up of the Soviet Union is morale among Ignalina's 5,000 employees, mostly Russian. Lithuania has granted them citizenship, but the IAEA and Shevaldin fret about the trickle of migration back to Russia.

Closing the plant would solve these problems. Initially, western governments thought the reactors could be decommissioned quickly. Then they realised what this would cost. "You can demand that the plant be shut down," says Jan Nistand, director of the Swedish Nuclear Power Inspectorate, which handles the Swedish bilateral aid programme, "But only if you have alternatives to offer."

There are few. Without Ignalina, most Lithuanians, already with no hot water, would live in the dark. The plant supplies 85 per cent of the country's electricity needs. No other country in the world depends so much on nuclear power.

Moreover, half of the electricity produced in Lithuania is exported to neighbouring Latvia, Belarus and Russia's Kaliningrad region. Facing similar pressures, the Ukrainian parliament has reversed its earlier order to close Chernobyl by the year's end.

Decommissioning could cost as much as building a new plant. As a result, western governments prefer to fund short-term patching-up operations to put them at ease before shut-down; the Swedish inspectorate expects this to be possible in eight or 10 years, when the pressure tubes will have to be replaced.

Only Sweden has a substantial bilateral programme at Ignalina – or, indeed, at any Soviet-era nuclear power station. Instead, the European Bank for Reconstruction and Development co-ordinates multilateral aid for the former Soviet bloc's problem plants. It is considering a grant to purchase equipment for Ignalina.

At Ignalina, Shevaldin has few kind words for the EBRD. "The Bank won't give us the money directly. It'll stay somewhere in the west. We'll never see it. Only with Sweden do we have real work." He also brushes aside any talk of shut-down and asserts – contrary to the view of western experts – that Ignalina will be open another 30 years, the life expectancy of the younger reactor.

Rapeseed fuels the energy debate

A diesel mixture is being used to power vehicles, says **Anna Kochan**

More than 300 diesel vehicles are being driven in French towns powered by a "green" fuel which Jacques Delors, president of the EC Commission, believes will become accepted throughout the EC.

Produced from rapeseed oil, the fuel – known as Diester, a trade name derived from ester (an organic compound) – reduces pollution and provides an income for Europe's agricultural community. Many Elf service stations, particularly in the Paris region, provide a mixture of regular diesel fuel and up to 5 per cent of Diester.

It is this mixture of fuels which Delors says will become the EC standard.

Diester is intended to run any vehicle with regular diesel engines – its main use is with municipal vehicles. The fuel does not affect their performance, longevity or maintenance. Tests show that this is true for engines running on a mixture of fuel containing up to 30 per cent Diester.

At present, French authorities do not foresee a higher percentage of Diester in the fuel and French automotive manufacturers do not plan to develop special engines, says Luc Schorter, general manager of Ouroumoff, the Paris-based consulting engineers.

Ouroumoff built France's first Diester factory at Compiègne, north of Paris. Its client for the FFr50m (£5.8m) pilot plant was Robbe, a company specialising in non-food uses of vegetable oils and owned by Sofiprotéol, a French financial institution.

While Diester benefits the environment by helping to alleviate the greenhouse effect and levels of acid rain caused by diesel exhaust fumes, Schorter also stresses the agricultural factors.

"It is a very intelligent solution for the farmers." Land lying fallow because of EC "set-aside" rules can be cultivated for non-food purposes.

In the medium term, rapeseed destined for Diester production could produce an annual 500,000 tonnes of Diester, or 4 per cent of French diesel fuel consumption. Schorter believes this level of production will be reached in five years and continue to increase.

Today, however, Diester would not be economically viable without government help. A subsidy of FFr1,000 per hectare is available to farmers growing rapeseed for conversion to Diester. Also, Diester is not subject to the same tax imposed on other diesel fuels and petrol. Even so, the price of Diester will not fall to that of regular diesel for at least two years because of the limitations of production technology.

In Diester production, a chemical reaction takes place in which rapeseed oil is combined with methanol in the presence of an alkaline catalyst. At the Compiègne factory, which Delors inaugurated earlier this year, a process known as Esterfip, developed by the French Petroleum Institute (IFP), is employed.

According to Schorter, it is not difficult to make Diester. Financed in part by the EC, the plant built by Ouroumoff has a capacity of 20,000 tonnes a year.

Schorter says if Diester is to be priced the same as ordinary diesel fuel, plants must be able to produce at least 100,000 tonnes a year.

For this, continuous production is vital. The IFP has developed and is testing such a process; others are also trying.

Schorter forecasts that within five years, France will have five factories making Diester, each with an output of at least 100,000 tonnes. They will operate in different regions, the first coming on stream in 1995.

Government subsidies for Diester will decline as the more cost-effective continuous process plants start up, but the question of what to do with the rapeseed husks left when the oil has been squeezed out and with the glycerine by-product remains unanswered.

Meanwhile, to satisfy a growing demand for Diester, the Compiègne factory plans to double output to an annual 40,000 tonnes.

Opera

Karetnikov's 'Till Eulenspiegel'

Few modern operas can claim a more tortuous genesis than Nikolai Karetnikov's *Till Eulenspiegel*, which has just received its stage premiere at Bielefeld in north Germany. Karetnikov, born in Moscow in 1930, comes from the post-Shostakovich generation of Soviet composers who experimented with new techniques and fell foul of the Communist authorities.

Till Eulenspiegel was hardly calculated to win official approval. A two-act *Singspiel* completed in 1985, it is a parable of Soviet repression and the indomitable human spirit. The work first reached the West two years ago, in a recording made piecemeal with help from off-duty members of the Soviet Cinema Orchestra and scraps of tape from the cutting-room. Today, the only obstacles to its performance in Moscow are financial. And so – with an irony that suits Karetnikov's style – *Till Eulenspiegel* has been premiered far from the people to whom it would mean most.

Initial reactions to the recording were ecstatic. *Gramophone* went so far as to hail it as "one of the most powerful operas of recent times". John Dew's Bielefeld production hardly supports that verdict. *Till Eulenspiegel* comes across as a good allegorical yarn – easy-to-follow, singable and entertaining, but not strikingly original.

Karetnikov and his co-librettist, the film director Pavel Lungin (*Taxi Blues*), used a novel by the 19th century Belgian writer Charles de Coster as their source. Till is more than the endearing prankster depicted in the Strauss tone poem – he becomes an uncompromising fighter for justice and freedom.

The setting is Flanders under the Hapsburg empire and the Spanish inquisition. Till is exiled for making fun of a monk, his father is burned as a heretic, his mother is murdered and he himself is nearly executed. From first to last, death and freedom form two sides of the same coin – no more so than in the final scene, when Till dies of poison and is mysteriously resurrected.

Woven into the fabric of the story are bizarre clips of the Spanish court and a role-call of stereotypes – a fishmonger who informs on his fellow citizens, a fortune-teller, a quartet of prostitutes and Till's alter ego, a vagabond named Lamme. All are wrapped into a polystilistic theatrical idiom embracing mystery-play, pantomime, ballet, burlesque and satirical drama – while running the musical gamut from renaissance song and baroque recitative to Orthodox chant, *Sprechgesang* and 12-note variations. Karetnikov emerges as a musical chameleon, a virtuoso impersonator, but lacking Schnittke's ability to mould his influences into something more personal.

Dew's production, designed by Thomas Gruber and José Manuel Vazquez, matches the parodistic quality of the score, without losing sight of the pain and violence beneath the surface. The stage is a 20th century prison of wire mesh, divided into three playing areas to keep pace with the quick changes of setting. No scene outstays its welcome, though some would have benefited from a more identifiable sense of place.

The biggest drawback is the positioning of the orchestra behind the stage, from where – despite amplification – Karetnikov's subtle *accompagnato* makes a sketchy impression. Give or take some predictable lapses of coordination with his cast, Geoffrey Moull conjures an idiomatic range of sound. In the baritone title role, William Oberholtzer is more worthy than charismatic. The Bielefeld ensemble provides versatile support, with excellent contributions from Susan Maclean as Till's fiancée Nele and Ulrich Neuweiler as Lamme.

Andrew Clark

Richard E Grant and Natasha Richardson in 'Suddenly Last Summer'; and Ewan McGregor and Alice Krige in 'Scarlet and Black'

Television/**Christopher Dunkley**

A season of excellence from the BBC

What a tremendous season the BBC is having. Tonight BBC1 completes its unmissable series, *Thatcher: The Downing Street Years*. BBC2 screens the second episode of *The Buddha Of Suburbia* a four-part serial which, at least in its opening episode, was so much more subtle and telling than *My Beautiful Laundrette* that it is difficult to believe it was written by the same person. On Tuesdays BBC1 brings us the most powerful popular drama series for many years, *Between The Lines*, and last week's episode was one of the best yet. On the same night the same channel screened Michael Frayn's charming programme about Prague, "Magic Lantern", in the *Omnibus* slot. The first in a new season of "Performance" on Saturday was a production of *Suddenly Last Summer* which made you see the 1959 Hollywood version with Liz Taylor for the travesty it really was; and on Sundays BBC2 is offering a compelling series about the teaching of drama, *Theatre School*, followed later by Stendhal's *Scarlet And Black* on BBC1.

In other words the BBC, an organisation still accused with tedious regularity of being inefficient, over-expensive and ripe for privatisation, is currently giving us an outstanding series about recent politics; a contemporary drama serial about multi-culturalism and social mores that is better than its creator's previous work which we were assured was the most glorious flower of the British film industry; a police series which meshes the ethical questioning of *Law And Order* with the entertainment of *Hill Street Blues*; a highly personal travel documentary combining information and entertainment in just the way we have always been told British broadcasting should; a splendid version of a Tennessee Williams play with a magnificent performance from Natasha Richardson; an exemplary modern documentary series; and exactly the sort of classic literary adaptation that even the BBC's fiercest critics seem to agree it does better than anyone else.

What is there in all the rest of television put together – ITV and Channel 4, satellite and cable – which can hold up its head in such company? So far as I can see, back in Britain just two weeks and still sampling the autumn season's new series though with little expectation now of any great surprises, just one ITV series from Granada: *Cracker*, in which Robbie Coltrane does everything that a good actor should when he is given a peach of a part. He gobbles it with glee, allowing the juice to run everywhere. Superb though his performance is, however, even this series has some small queries hanging over it: can writer Jimmy McGovern prevent Coltrane's character, an offbeat police psychologist named Fitz, tumbling into self parody; and, given that another series has already been commissioned, can he invent enough varied stories to justify Fitz always having a central role? Trying to talk someone out of a crisis is all very well, but every week?

In *Thatcher* we have become used to the former prime minister talking herself out of innumerable crises as her account of her years in office progresses. The absolute consistency with which "we" (as in "We have become a grandmother", included tonight) claim all the credit for the successes while blaming others for the failures, has been breathtaking. Her account in today's programme of the parting of the ways between her and two of her chief ministers, Nigel Lawson and Geoffrey Howe, is staggering in its egocentricity. This incident provides a perfect example of the way that the television version scores so heavily over the book (Harper Collins, £25). At 914 pages the book is about twice as long as it ought to be, yet it is fairly easy reading. However, if you watch the television series first and then read the book you cannot but be struck by the two-dimensional nature of the printed version which, of course, supplies only the Thatcher line on events.

In Denys Blakeway's television version the Thatcher words are often virtually identical to those in the book, but there are two crucial differences. First, the screen allows you to see how the lady's eyes gleam or narrow as she delivers them, and that can double the impact or even change the meaning. Secondly her words are often modified by an immediate reaction from somebody else. Tonight, for example, she suggests that when Lawson claimed to be resigning because of her preference for advice from Alan Walters, his real reason was the realisation that he had been responsible for inflation. In the book Thatcher's assertion stands unchallenged, but on television Lawson promptly pops up to denounce this as ludicrous.

This series confirms something I have been suspecting for some years: that, far from being the vulgar magic lantern which book academics would have us believe, television can actually be a better medium for history than print, once you are dealing with the modern world in a period when there are news archives to be raided (as Blakeway does, naturally) and many of the key witnesses are still alive to be interviewed (as in this instance, where the cast list is astonishing: everyone from Reagan and Gorbachev to Ingham and Powell). Fifty years from now, who will turn first to the book if, instead, they can turn to this engrossing, far more revealing, and better rounded television series?

You could hardly find a bigger contrast than that provided by *Between The Lines*, a drama series which has faint echoes of so many previous series from *Z Cars* to *The Sweeney*, though we may eventually conclude that this is the best of the lot. Watching last week's episode, written by Rob Heyland and directed by Roy Battersby, was a particularly fascinating experience for any fan of film noir who had watched Huston's 1950 movie *The Asphalt Jungle* on BBC2 on Sunday night. The received wisdom is that the old hard-boiled black and white American thrillers set a benchmark for crime drama which has rarely been matched subsequently, either in cinema or on television. Yet *Between The Lines* told a story of bungling and departmental rivalry (between MI5 and Special Branch) which was far more subtle and complex than any of the film noir classics.

It did so within a framework in which all the detail was hugely satisfying, from the wicked comedy of the scene where the Home Office bigwig's assumption of a no-smoking policy was promptly ignored by all and sundry, to the nice ambiguity of the relationship between our hero, Tony Clark of the police's internal security division (Neil Pearson), and Angela Berridge from the Home Office (Francesca Annis). There has been a marked reduction in the activity which earned this series its alternative title of *Between The Sheets*, but it looked as though Clark, despite his deep distrust of the Ministry, was about to show his Achilles heel again, and probably a good deal more of his anatomy. As sheer entertainment this production rated very high, but it also had a serious question to ask about who should guard the guardians. If our security bodies will, indeed, lie in the competition to predominate, how on earth can the private citizen, or even the ordinary policeman, know whom to trust? There were hints of Kafka's world here, all the more effective for being contained within a classic bit of television crime drama.

Who should take the credit for this outstanding showing from the BBC? The new channel controllers, Alan Yentob and Michael Jackson? Most of this season's series must have been commissioned before they came to power. John Birt then? Perhaps so; he has been wielding influence at a high level long enough for his appointments and ideas to have started having their effect on screen. But caution is advisable. Swings and roundabouts have always been the most important constituent in the contest within British television. It may be that ITV really is abandoning the high ground of programme quality in its pursuit of audience quantity, and that we are witnessing the first evidence of an important long-term change. On the other hand, the seesaw has swung wildly in the past and could easily do so again. Still, there is no mistaking the BBC's superiority at this moment.

Modern dance in dire straits

*As rumours fly about the demise of LCDT in its current form, **Alastair Macaulay** looks at the crisis in British modern dance*

Is British contemporary dance flourishing? So it has been recently claimed. The facts suggest a far more alarming situation. For the last quarter-century, the nation's two largest modern-dance troupes have been London Contemporary Dance Theatre (16 dancers at present) and the Rambert Dance Company (17 dancers). Today, both are in conditions of intensive care.

Rumours were flying over this last weekend that London Contemporary Dance Theatre was about to announce its closure. The company, which reached a peak of glory during the 1970s under the artistic direction of choreographer Robert Cohan, has always exemplified rare standards of sheer dance technique. But it has been seeking for a satisfactory new artistic director since the mid-1980s. The crisis is the more acute since it affects the London Contemporary Dance School, which feeds the company with dancers and is among the world's leading centres of modern-dance training.

The Rambert, which became a basically modern-dance troupe in 1966, has changed identity several times. Until the 1980s it presented a more histrionic or theatrical kind of dance expressionism, led by such choreographers as Glen Tetley and the gradually emerging Christopher Bruce. During the 1980s, however, it became a more pure-dance troupe, with higher standards of dance technique and musicality.

But December 1992, the board of directors of the Rambert sacked the current artistic director, Richard Alston. His work for the company as both choreographer (since 1980) and coordinator of a revised repertory and important artistic collaborations (since 1986) had won several awards; and the board's decision caused huge shock-waves, which have still not subsided.

There seems little doubt that the reasons behind the board's act were primarily financial. The company had fared poorly at the box-office (both on tour and in London).

As from next year, however, a new Rambert is expected to emerge. The new artistic director is to be Christopher Bruce – yes, Bruce of Rambert's pre-Alston days.

Bruce has signed to begin work in April 1994. He has made certain conditions: that the company be increased from 17 to 25 dancers, that its orchestra be increased in size, and that a full-time musical director be appointed. His plans are to give the company an international repertory – a sort of 20th-century Masterpiece Dance Theatre – with works not only by himself but also by such foreign choreographers as Jiří Kylián, Ohad Naharin, and the late Martha Graham.

These plans are startlingly ambitious and yet thoroughly reactionary. In modern-dance terms, 35 dancers is an astonishingly large company. (Compare it with the leading American modern-dance companies. Merce Cunningham, Paul Taylor, Twyla Tharp, Mark Morris all have less than 18.) As for the choice of choreographers, Bruce, Kylián, and Naharin, though popular, are scarcely on the cutting edge of dance; and Graham is dead. And does the new Rambert plan, as is rumoured, to dance ballets as well as modern-dance works? It is unlikely that a company based in the work of Bruce, Kylián et al. could do them justice. And will such a company be popular? The new Rambert, we are told, will give more than 100 performances a year. When touring round Britain, it will give six or seven performances per week. (This at a time when most ballet companies have grown scared, for box-office reasons, of giving much time to anything other than such full-length ballets as *Swan Lake*.)

When people talk of the recent success of British contemporary dance, they are chiefly referring to a number of our smaller dance companies – Siobhan Davies's, Michael Clark's, Shobana Jeyasingh's, DV8, Adventures in Motion Pictures, Second Stride, the Cholmondeleys. These troupes are almost all shaped around one choreographer. LCDT and the Rambert are, however, repertory companies; and this is part of their long-term problem. You can build a ballet repertory company because there are plenty of choreographers who can employ the same ballet vocabulary. But there are many different modern-dance techniques. Both LCDT and the Rambert have had to keep readjusting their basic styles of dance training.

Yet the Arts Council has acquiesced to the formation of the revised Rambert, and has given notice to London Contemporary Dance Theatre that it cannot currently support two companies on such a scale; or, rather, that London Contemporary Dance Theatre must reduce its size and reconceive itself, or close. The company gives a London season later this month – probably its last London season in its current form. The latest news is that LCDT will continue, but on an altogether smaller scale.

The ironies of this situation are many. It is dismaying to find out how many of these decisions have been made, not by artists, but by boards and administrators: chiefly non-dance people, shaping the dance world to their will. London Contemporary Dance School trains dancers to a very high level of technical accomplishment: a level that is actually far more virtuoso than suits many of the choreographers on the international new-dance scene. Alston, the first important choreographer to emerge from the School and widely considered to be the finest dance-maker in Britain today, is one of the few choreographers who demands a high level of technique; and yet he remains a freelance choreographer without a company. (He has returned to LCDT, for which he made his earliest works in the 1970s, to create *The Perilous Night* for the forthcoming season.) Several

Similar problems are to be found in many other countries. Dance today is simply in a dire state: a subject to which I will return. There will be more to say about both the Rambert and LCDT in the near future. At present, the situation must be watched with the greatest concern.

INTERNATIONAL ARTS GUIDE

■ BONN

Beethovenhalle Tonight: Musikfabrik Soloists play chamber music by George Crumb, Elliott Carter and others. Tomorrow: Fiori Musicali music ensemble from Cracow gives a concert on original instruments. Fri (Bad Godesberg): Rodney Friend, Tim Hugh and Yonti Solomon play piano trios by Beethoven and Malcolm Arnold. Next Tues (Stiftskirche): Bonn Chamber Chorus in music by Britten and Monteverdi (0228-773666)
Oper Tomorrow and Sat: Valery Panov's production of Prokoefiev's ballet Romeo and Juliet. Sun: Spiros Argiris conducts first night of Gian-Carlo del Monaco's La fanciulla del West, cast led by Barbara Daniels, Sherrill Milnes and Alexei Steblianko (repeated Nov 19, 22, 24, 28). Next Mon: Renato Bruson song recital (0228-773667)

■ BORDEAUX

● Barry Douglas plays piano concertos by Prokofiev and Shostakovich, Orchestre National Bordeaux Aquitaine tonight at Palais des Sports. Next Wed and Thurs: Alain Lombard conducts Mahler's Sixth Symphony (5648 5854)
● A new ballet production featuring choreographies by Ted Brandsen, Paolo Bortoluzzi and Erich Walter, set to music by Stravinsky, opens at Grand-Théâtre on Fri, with four further performances over the coming week. Nov 23-27: Nederlands Dans Theater (5648 5854)

■ COLOGNE

Philharmonie Tonight: Colin Davis conducts Dresden Staatskapelle in Beethoven's Sixth Symphony and Brahms' First. Tomorrow: Jessye Norman song recital. Fri and Sat: Charles Mackerras conducts Cologne Radio Symphony Orchestra in works by Delius, Britten and Walton, with tenor soloist Philip Langridge. Next Mon: Andrei Gavrilov plays Bach. Tues: John McLaughlin and friends (0221-2801)
Opernhaus Tonight, Sun, next Wed and Sat: Tosca with Galina Kalinina. Fri: Billy Budd with Boje Skovhus and Victor Braun. Sat, next Tues and Thurs: L'Italiana in Algeri with Kathleen Kuhlmann and Ferruccio Furlanetto. Mon: Die Zauberflöte (0221-221 8400)

■ COPENHAGEN

Royal Theatre Tonight: Hans Brenaa's production of Coppelia. Tomorrow: Alexander Gibson conducts David Radok's new production of Peter Grimes, with Stig Fogh Andersen, Tina Kiberg and Norman Bailey. Fri: four choreographies by Balanchine. Sat: La traviata. Next Tues: Napoli. Nov 19, 20: Tokyo Ballet (tel 3314 1002 fax 3312 3692)

■ DUSSELDORF

Schauspielhaus A new production of Büchner's Woyzeck, directed by Dimiter Gotscheff, opens on Sun. Repertory also includes Brecht's Mr Puntila, Eugene O'Neill's Mourning Becomes Electra and three Shakespeare productions – Romeo and Juliet, A Midsummer Night's Dream and a new production of Troilus and Cressida opening on Nov 20, directed by David Mouchtar-Samorai (tickets 0211-369911 information 0211-162200)
Deutsche Oper am Rhein Tonight, tomorrow, Sun afternoon: Fidelio. Fri, Sat: Stravinsky ballet programme (0211-890 8211). Duisburg Theatre has Giselle tonight, Swan Lake tomorrow, Don Giovanni on Fri, first night of a new production of L'incoronazione di Poppea on Sat and Salome on Sun (0203-300 9100)

■ FRANKFURT

Oper The main event this week is the first night on Sun of Matthias Langhoff's new production of Simon Boccanegra, conducted by Sylvain Cambreling, with a cast including John Bröcheler and Barbara Madra (repeated Nov 17, 21, 24, 27, 29, Dec 2, 4, 8). Repertory includes Così fan tutte, Il barbiere di Siviglia and William Forsythe's ballet As a garden in this setting (069-236061)
Alte Oper Tomorrow: Sandor Vegh conducts Camerata Academica Salzburg in works by Mozart, Bartok and Haydn. Tomorrow (Mozart Saal): Andrei Gavrilov plays Bach. Sun: Michael Gielen conducts South-West German Radio Orchestra in Schoenberg and Beethoven. Tues: The Dubliners. Nov 25: an evening with Peter Ustinov (069-134 0400)

■ HELSINKI

The new 1360-seat opera house of the Finnish National Opera will be formally inaugurated on November 30 with Aulis Sallinen's opera Kullervo, followed by a week of gala performances. These include a revival of Vladimir Bourmeister's production of Swan Lake on Dec 1, a new production of Carmen on Dec 2 starring Alicia Nafé and Josef Protschka, and a gala concert on Dec 4 conducted by the company's new music director, Miguel Gomez-Martinez. Kullervo, Carmen and Swan Lake continue in repertory throughout December (Finnish National Opera, Box 176, 00251 Helsinki, Finland. Tel 358-0-4030 2211)

■ HAMBURG

Staatsoper Tonight: Fidelio. Tomorrow, next Tues: John Neumeier's version of Swan Lake. Fri, next Wed: Neumeier's ballet set to Mozart's Requiem. Sat: La traviata with Tiziana Fabbricini, Francisco Araiza and Giorgio Zancanaro (repeated Nov 18, 24, 26). Sun: Christian Thielemann conducts Ruth Berghaus' production of Tristan und Isolde, with Wolfgang Fassler and Gabriele Schnaut (repeated Nov 21, 28). Mon: Waltraud Meier song recital (040-351721)
Musikhalle Tonight: concert performance of Der fliegende Holländer. Tomorrow: Nelson Freire piano recital. Sun morning, Mon evening: North German Radio Symphony Orchestra. Sun evening: Leonard Slatkin conducts Saint Louis Symphony Orchestra in Bernstein, Claude Baker, Gershwin and Stravinsky. Next Tues: Beaux Arts Trio (040-354414). Next Tues, Wed in St Michaelis-Kirche: Nikolaus Harnoncourt conducts Brahms' German Requiem (040-351721)

■ MUNICH

Staatsoper Tonight, Sat: Le nozze di Figaro. Tomorrow: Gerd Albrecht conducts first night of Thomas Langhoff's new production of La Damnation de Faust, with a cast led by Thomas Moser, Jeanne Piland and Günter Missenhardt (repeated Nov 14, 17, 20, 24, 27, 30, Dec 2). Next Mon, Thurs, Sun: Elektra with Gwyneth Jones and Christa Ludwig. Next Wed in Cuvilliés-Theater: revival of Henze's Der Prinz von Homburg (089-221316)
Gasteig Tonight: Enoch zu Guttenberg conducts Munich Bach Collegium in Brahms' German Requiem. Tomorrow, Fri: Sergiu Celibidache conducts Munich Philharmonic Orchestra in symphonies by Haydn and Tchaikovsky. Sun: Fabio Luisi conducts Munich Radio Orchestra and Chorus in opera concert, with vocal soloists. Mon: Frieder Bernius conducts Stuttgart Chamber Chorus and Classical Philharmonic in Brahms' German Requiem (089-4809 8614)

■ OSLO

Konserthus Tomorrow, Fri: Eliahu Inbal conducts Olso Philharmonic Orchestra in Mahler's Seventh Symphony. Next week's concerts are conducted by Hans Vonk. Lucia Aliberti sings opera arias on Nov 24. Mariss Jansons' next concerts are on Nov 25 and 26 (2283 3200)

■ STOCKHOLM

PENDERECKI FESTIVAL
The Stockholm Concert Hall Foundation marks Krzysztof Penderecki's 60th birthday with a 10-day festival opening tomorrow with the premiere of a new version of the Polish Requiem, in which the composer will conduct the Royal Stockholm Philharmonic Orchestra and Chorus. The festival's ten concerts include more than 35 works for orchestra, choir and chamber ensemble, including the Second, Third and Fourth Symphonies, the First Violin Concerto (Jan Söderblom), the Luke Passion and Utrenja I and II. In addition to prominent Swedish musicians, the festival includes performances by the Cracow Philharmonic Orchestra and Chorus, Mstislav Rostropovich and Tabea Zimmermann (tickets 08-102110 information 08-212520)

ARTS GUIDE
Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Times Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Edward Mortimer

Home and away

Refugees and other displaced people pose a growing problem

Every single day in 1992 nearly 10,000 people around the world were forced to leave their countries, bringing the total number of refugees to 18.2m by the beginning of this year. An even larger number – at least 24m – have been forcibly displaced without technically becoming refugees, since they are still inside their own country's borders. Add the two figures together and you get the population of a fair-sized country.

The *de facto* ruler of that country is the UN high commissioner for refugees (UNHCR), Mrs Sadako Ogata. The size of her "government" has doubled since 1989. At last count she had a staff of 3,703 people – 810 at her Geneva headquarters, 2,893 deployed in 106 countries across the world – administering a budget of $1.4bn.

UNHCR's finances are almost as precarious as those of the people it is trying to help. Less than 5 per cent of its annual expenditures are covered by the UN regular budget. All the rest comes from voluntary contributions, mainly from national governments. Every new emergency triggers an appeal for funds.

This system has its merits: it decreases the risk of UNHCR developing into a large permanent bureaucracy with little to do, as has happened with some of the UN's more autonomous specialised agencies. But it does make it very directly dependent on the goodwill of the main donor governments, whose priorities do not necessarily coincide with the interests of the refugees.

Partly for this reason, there has been a marked shift in UNHCR's emphasis over the last three years. In the past its main focus was on the right of asylum. Now it has broadened its approach. Both in northern Iraq and in the former Yugoslavia it found itself supporting displaced people within their country of origin in an effort to prevent them from becoming refugees, at least in the technical sense. Drawing on those experiences it has devoted more and more resources to preventive work, seeking to identify root causes of refugee problems, to be better prepared to cope with them and, where possible, to propose solutions.

In short, from a lobbying-cum-placement-agency it has developed into something close to a full-fledged government, supplying its clients with a full range of services and dealing with other governments on their behalf. The report Mrs Ogata published yesterday on "the state of the world's refugees"[1], the first of its kind, is a kind of policy statement.

Clearly she is right to draw attention to the causes of the problem and to advocate that as far as possible they be dealt with at source. Yet many independent observers are uneasy about the extent to which UNHCR is now taking on political tasks, and fear that it is failing in its traditional role of upholding the right of asylum.

Western Europe is a fortress, guarded by a moat of impoverished but 'safe' countries

Prof Gil Loescher, for instance, a leading expert in the field who is himself a member of UNHCR's advisory board, nonetheless argues in a new book[2] that "UNHCR's dependence on voluntary contributions forces it to adopt policies that reflect the interests and priorities of the major donor countries". He cites the example of aid levels per Afghan refugee during the 1980s, which were more than three times higher in pro-western Pakistan than in anti-western Iran; and the 1991 Gulf crisis, when international aid to Iraqi refugees in Iran was much lower than to those in Turkey and elsewhere.

Similarly, it is clear that the operation in the former Yugoslavia, where nearly 4m people are now dependent on UNHCR relief, is in essence an exercise in containment, designed to keep those people where they are. Without it, at least a third of them would probably be spreading across Europe, doubling the number of asylum seekers. Yet even as it is, west European governments are spending an estimated $7bn a year on processing asylum applications.

Western Europe is becoming a fortress, guarded by a moat of impoverished but "safe" countries which asylum seekers have to pass through, and to which, under currently prevailing doctrine, they can therefore be sent back unexamined. UNHCR is critical of this policy, but its criticism is muted by the need to retain support of donor governments.

Meanwhile, as Barbara Harrell-Bond, director of the Refugee Studies programme at Oxford, points out in the latest issue of War Report[3], the relief programmes in host countries like Slovenia and Croatia are based on a model "which serves to marginalise refugees and displaced persons as dependent minorities". They inevitably become the object of growing resentment among the indigenous population, rather than being encouraged to support themselves and make a useful contribution to the host economies.

It is true that host governments prefer this model, hoping it will encourage the refugees to go home as soon as possible. But they may well be mistaken about this. According to Ms Harrell-Bond: "Experience suggests that the first people able to return home are those who have succeeded in securing themselves and in saving up for rebuilding their lives on their return."

They are going back in Cambodia, Afghanistan and Mozambique, where cold-war-related conflicts have been or are being resolved. But where conflicts reflect ethnic divisions, as is more and more often the case, the chances of restoring ethnically mixed populations to their homes are much slimmer. We have to face the fact that many refugees will never be able to return. They must be allowed to find new homes, and helped to rebuild their lives in a new homeland.

[1] *Penguin, £8.99/$14.* [2] *Beyond Charity, Oxford, £25/$35.* [3] *Bulletin of the Institute for War & Peace Reporting, 1 Auckland Street, London SE11*

Bottom line on assets and liabilities

Andrew Jack examines the openly contested battle for the top job in UK accountancy

When Mr Brandon Gough, chairman of accountants Coopers & Lybrand, let it be known early last year that he would be standing down in April 1994, he could not have envisaged the upheaval that would ensue.

Since then, a hotly contested and distracting election battle has brewed in the fight for the top seat in the UK's largest accountancy firm. Ballot papers naming the four candidates on the shortlist are being sent out to all 700 UK partners today.

"Everywhere you go in or out of the firm, whatever you're doing, the subject comes up," says one Coopers' partner. "A chairman greeted me at an AGM like an old friend the other day, and his first question was how the race was going."

A partner from a rival accountancy firm adds: "Suddenly everybody there has got involved in politics. There is so much canvassing that no one is doing any work."

At stake is a five-year term as the head of a fast-changing organisation which last year generated £553m in fees, and employs 9,300 staff in 36 offices around the country. The chairman also has considerable influence in Coopers' separate international network, which has more than $5.3bn in billings, 4,500 partners and 67,000 staff in more than 730 offices worldwide.

"The job of the leader is to get 700 highly talented, highly egocentric partners to go broadly in the same direction most of the time," says one partner. Those vying for the post are:

- Adrian Lamb. Partner in charge of the regions, and previously a regional partner for the south and east regions of the firm with a number of prestigious audit clients. A quiet consensus-builder, he has Brandon Gough on his slate.
- Alan McFetrich. An executive partner who was national managing partner at Deloitte Haskins & Sells before it merged with Coopers in 1990. He has worked outside the firm on secondment to government, but has relatively little client contact now. He has a reputation as a tough, single-minded administrator.
- Peter Smith. Head of Coopers' City office in London, with many financial service clients. Described by one partner as "closest to Brandon's command and control approach". He has an image as a relative traditionalist in his attitude to management.
- Richard Stone. Head of corporate finance, and previously head of the firm's insolvency practices in London and Birmingham. The only candidate not part of the firm's current senior management team. A drawback is his reprimand by the Institute of Chartered Accountants in England and Wales earlier this year for a breach of ethical guidelines in accepting the appointment as administrator to Polly Peck International when Coopers had undertaken other work for the company and its chairman, Mr Asil Nadir, now a fugitive in northern Cyprus.

Coopers has done its best to keep the election debate private. Candidates have been urged not to speak to journalists, and many other partners loyally remain silent when the subject is raised.

By contrast, the election process has been unusually open, pitting the four candidates against each other in open competition. Traditionally, the senior partner or chairman in a British professional firm has tended to be just that: the longest-serving partner, who assumes the job almost automatically before retiring. Where that has given way to a search among rivals, a small group has generally been established to "take soundings" and select a consensus candidate in secret.

The front-runners in a hotly contested election: clockwise, Peter Smith, Richard Stone, Adrian Lamb and Alan McFetrich

For instance, at KPMG Peat Marwick, the UK's second-largest accountancy firm, all partners formally voted on Mr Jim Butler's replacement as senior partner in April. But there was only one candidate, and the ballot papers were all numbered, which raised fear of reprisals against those who might have contemplated voting "no" to Mr Colin Sharman.

Brandon Gough himself did not endure a public process at Coopers & Lybrand before taking up his position in April 1983. He says he was one of four candidates considered by a nomination committee, which then "culled" the others. Five years later, he says, "there was not much stomach for a competition", and his term was automatically renewed. It was extended for a further year following management changes as a result of the merger with Deloitte.

If Gough had prevailed, his successor would have been chosen behind the scenes. But in an unusual display of power, the partners – who are also the firm's shareholders – exerted their ownership rights.

The firm's "partnership deed" decrees that the governing board – 13 partners selected by the chairman – is responsible for determining the process to select a new chairman. Early last year it got to work. It proposed, according to Gough, that a nomination committee be chosen, to include all members of his board who were not themselves standing as candidates. It said this committee would identify one partner to "emerge" as winner.

Coopers' partners were not convinced. Their objections culminated at their annual meeting at the National Exhibition Centre in Birmingham last December. The dispute led to revised proposals for a 25-member nomination committee elected from among all the partners, which would draw up a shortlist of four – all of whom would be seen and voted on by the entire partnership.

The first few months of this year were spent electing from a list of about 80 candidates those who would sit on the committee. Each represents a constituency of other partners.

In July, invitations were sent out for potential candidates for Gough's job to submit their nominations and supporting manifestos. By the end of August, 16 had been received. Through two days of internal presentations, the committee whittled the list down to four. "It was one of the most ghastly processes and procedures ever devised," says one partner who was involved.

In the past two weeks, the four have been on the hustings together, giving 15-minute presentations and then responding to partners' questions: twice in London, once in Birmingham and once in Manchester. Here they have laid out their vision of the firm's future: including proposals for reorganising internal management, simplifying the regional structure and boosting the firm's international activities.

Given that the election is by single transferable vote, and administered by the Electoral Reform Society, the process leading to a result on November 23 seems to be open and fair.

Some insiders say the choice is between administrators and leaders; or between those who believe the firm should respond to clients' needs against those who will allow it to be driven by the services it has traditionally offered. Many partners say they will be swayed by performance on the hustings, or by the management team each candidate has publicly proposed. As Gough says, the job is that of "a steersman, not the oarsman".

Some tensions still run deep from the Deloitte merger three years ago, which may persuade former partners of that firm to support McFetrich. Those linked to London or the regions may opt for Smith and Lamb respectively as the candidates they know best.

For Stone, the principal challenge is whether his image has been tarnished by Polly Peck. A few weeks ago the nomination committee received a memo from Sir Christopher Foster, a senior Coopers' partner and consultant to the government, suggesting that eyebrows in Whitehall might be raised were Stone appointed.

In response, Sir Tim Bell, Mrs Thatcher's public relations adviser, wrote in support of Stone that the Polly Peck issue would be a 48-hour wonder, which would not damage the firm's reputation with clients, including the government.

Whatever the outcome, many partners will be glad when it ends. "The process has been dreadfully over-democratic," says one. "But it is useful after a big merger to show 700 people that democracy can work. Whether it's going to produce the right result is a different matter. I'd have thought we won't necessarily get the best man."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Smith's muddle a sign of Labour's Euro mess

From Mr Alan Sugar.

Sir, Last Friday John Smith signed the Labour party up to a European manifesto which includes, among other things, a compulsory maximum 35-hour week for industry. This created uproar in the media and throughout industry in general, so much so that by Saturday morning he was saying that he did not really mean it after all.

Are we to understand that Mr Smith doesn't read what he signs? Or, perhaps he simply doesn't understand what he is signing. I would be very worried if one of my Amstrad blokes did deals on that basis. I would be even more worried if he knew what he was doing when he signed and then went back on his word 24 hours later. Surely, if someone signs a manifesto they do so committing themselves to all points within it. Does Mr Smith think he can pick and choose? Maybe he read it in a hurry, rushing from one strike-bound Air France flight to another. I mean, let's be fair, ground staff at Charles de Gaulle only wanted to work fewer hours, and be guaranteed jobs for life.

The other "brain wave" in the manifesto is the promise that taxes on business will be "levelled up" across Europe. Imagine how disastrous this would be for Britain. Has Mr Smith thought of the reasons why Japanese and American industry flock to the UK? Apart from all of the advantages of grants etc that we have to offer, it is because the UK has the lowest level of corporation tax anywhere in the EC. If you make corporation tax standard across Europe our Japanese colleagues will be building factories in the sunny south of France; and if there is no tax break they might as well enjoy the weather.

The level of corporation tax we have in the UK is accepted by business as reasonable and, thus, the attention of industrialists is focused on productivity and profit. It would be horrific to consider businessmen turning their attention to running three sets of books as the Italians and Spanish have done for years.

Will Mr Smith please tell us whether putting business taxes up is part of Labour's European policy, or is this another thing that he did not realise he had signed?

Alan Sugar,
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A bad democratic idea

From Lord Barnett.

Sir, Samuel Brittan (Economic Viewpoint, November 4) concludes: "The main case for an independently *accountable* [my italics] central bank is not that it can magically bring price stability at a zero cost. It is the case for having one body clearly responsible for monetary policy, which could not then be blamed on some amorphous amalgam of politicians, officials and central bankers as at present."

He goes on to argue: "Moreover, it is a good democratic idea that fewer decisions should be taken by a central government, constantly looking over its shoulder at its parliamentary majority, and that more should be taken by other bodies accountable in other ways." He destroys his own case by not giving us any definition of "accountable" other than that other bodies should be "accountable in other ways".

The real case against him, however, is that no government would, or should, give up responsibility for its central, and essential, control of the economy. For monetary policy is about very much more than price stability. It goes to the very heart of economic policy, and cannot be left to another quango with an ill-defined form of "accountability". That would not be a "good democratic idea". It would be a very bad one.

Joel Barnett,
7 Hillingdon Road,
Manchester M25 7QQ

Queens Moat valuations

From Mr Clive Lewis.

Sir, The Lex column's comment on the Queens Moat House issue (November 2) fairly draws attention to the case for a review of valuation procedures. I agree. I said so publicly in July and then put in hand a special review under the chairmanship of Michael Mallinson, formerly property director of Prudential Portfolio Managers. This brings together both valuers and their clients, to ensure that the service is properly tuned to market needs. The question of companies publishing their valuation criteria is an important element in this.

The review team welcomes evidence from any quarter, recognising the importance of a dialogue with our customers on these important issues.

In putting this in hand, I have made no instant judgment on any individual set of valuations. In the current controversy, the chairman of our assets valuation standards committee has – as you report – asked for sight of the relevant valuation certificates.

Clive Lewis,
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12 Great George Street,
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Bank governor's advice to industry 'nonsense'

From Dr Stefan Szymanski.

Sir, Mr Eddie George's comments on the rule of business in fighting inflation ("Bank governor tells businesses to hold margins", November 4) left me wondering quite how he imagines the world to be organised outside the confines of Threadneedle Street. "If we can persuade you that we will deliver sustained non-inflationary growth, I would hope we might see businesses seeking to generate profits through higher volumes and less through higher margins."

What is this nonsense? What does the Bank of England produce, manufacture, distribute or retail which will generate growth in gross domestic product? The Bank does not produce anything which measurably adds to GDP. It is companies that produce goods and services which are sold to satisfy the needs of consumers.

And they being told not to change their prices. In a market economy competitive companies change prices all the time in order to maximise their profits, maybe by introducing better quality goods, maybe exploiting temporary opportunities which are then competed away by rival companies entering the market.

Any first year economics undergraduate knows that prices are the primary signalling device of a market economy; interfere with this and you prevent competition from working effectively. Perhaps Mr George is concerned by the lack of competition in British industry, but then he should speak to the Monopolies and Mergers Commission rather than issuing Canute-like exhortations to industry.

Of course, perhaps Mr George did not mean his comments to be taken seriously. If so, he has succeeded.

Stefan Szymanski,
lecturer in economics,
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Dairy origins of Sainsbury

From Lord Sainsbury.

Sir, David Richardson in "Farmer's Viewpoint" (November 9) refers to "the small butcher's shop of the original Mr Sainsbury".

The shop which was opened by my grandparents, John James Sainsbury and his wife Mary Ann, was a dairy shop, not a butcher's.

It was this shop, which they opened in 1869 at 173 Drury Lane, that began the family business which flourishes today.

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FINANCIAL TIMES
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Talking about Hong Kong

HONG KONG'S has been among the most successful economies of the postwar era. With its combination of free markets, open trading, rule of law and small but socially responsible government, its prosperity is the clearest advertisement for enlightened capitalism. Income per head will, by the time of its transfer to Chinese sovereignty in 1997, exceed that of Britain, its present guardian. British ministers who meet today to map out policy on Hong Kong are discussing a valuable jewel.

It is pointless to dwell at this stage on the fact that Britain's approach to Hong Kong has been inconsistent and that the attempts of Mr Chris Patten, its governor, to broaden democracy came far too late. Mr Patten staked out a principled position a year ago of modest expansion of the electoral franchise. Britain must consider the best way to pursue this goal, which appears to command majority support in Hong Kong. Mr Patten is right to insist that Hong Kong's economic success will be undermined unless, in line with China's "one country, two systems" principle, it has robust and independent institutions. If it does not, the legal system and press freedom will quickly be poisoned. These are worth fighting for, however belatedly.

Action plan

The British negotiators who have sat through 15 rounds of talks with intransigent Chinese officials may feel that there is little to be gained from further discussion. But on the point of their departure to put this view in London, they have had, in the words of a senior Hong Kong official, their "cloak tweaked". The hint of an offer from Beijing to agree on the easy parts of Mr Patten's proposals may be nothing more than an attempt to prolong talks with no actual intention of concluding them. It may prevent a clear-cut decision today, but it does not stop ministers from planning future courses of action based on Beijing producing, or failing to produce, further evidence of willingness to negotiate.

Britain has three options: to carry on talking, to cause the talks to be broken off, or to try to pursue a course in between. Each carries risks. A clear intention to keep talking whatever happened would reduce whatever leverage Britain held over China virtually to nothing. The Chinese, knowing that their principal objective of sovereignty has been achieved, could happily filibuster away Mr Patten's proposals until they could not practically be put into effect. China's objections may in any case be so fundamental that no agreement is possible, particularly if its real intention is to keep some of Hong Kong's more vocal democrats out of post-1997 politics. However, while talks continue, it remains possible that China will decide that they should be brought to a successful conclusion.

Middle course

China's latest suggestion opens the possibility of a middle course which has short-term attractions: to put some of the Patten proposals into law with China's acquiescence while still negotiating on the most difficult points. It may win a little time, but carries the same risks of endless talks.

The dangers of the third option, a rupture of talks, are greater. China insists that it will simply dismantle whatever electoral arrangements are made without its agreement. It may take other reprisals. Hong Kong would go through a damaging period of uncertainty. One cause of such uncertainty would be the attitude of LegCo, which must legislate electoral arrangements. It may well opt not to upset China.

Allowing LegCo to decide how far to go would, however, allow a measure of choice within Hong Kong about its future. If China then tore up what it had decided, people in Hong Kong would at least know where they stood and could plan their futures accordingly.

The point at which London should pull out of talks has not yet been reached. But the option must be retained – and it may have to be exercised soon. It remains in China's strong interest to secure a smooth transfer of Hong Kong. China is itself the biggest investor in the territory. It knows that its actions in Hong Kong will be closely watched in Taiwan, upon which it will next set its sights. China agreed to hold talks on Mr Patten's proposals. It should show that its continued participation means something.

Private phones in Europe

FIVE YEARS ago British Telecommunications was the odd man out of the European telecommunications industry. State ownership of national telephone operators was the norm and the UK government's privatisation of BT was considered eccentric.

But over the coming five years private ownership is likely to become the norm. Germany, Italy, the Netherlands and Denmark have all announced plans to sell shares in their telecommunications carriers. France is expected to do the same, though France Telecom is not on the Balladur government's initial privatisation list. Even Greece's socialist government, which campaigned against the privatisation of OTE during the recent election, has not totally turned its back on some form of private ownership.

The motives behind the trend to private ownership are mixed. A belief in the greater efficiency of private enterprise and the benefits of competitive markets – the prime motive behind the BT privatisation – is sometimes a factor. The Netherlands, for example, is encouraging the country's railway, cable television operators and electricity utilities to join forces to compete with a privatised KPN.

But in most countries financial considerations are often decisive. By selling stakes in the phone companies, cash-strapped governments can both plug their fiscal deficits and attract private capital to finance expensive network investments. The need to continue investing vast sums in eastern Germany was the factor which finally persuaded Germany's opposition last week to remove its veto on privatisation of Deutsche Telekom.

Forming alliances

Yet another motive for privatisation is a perceived need to respond to global competition by forming alliances. Such alliances are easier to cement if the partners are privatised and so can take stakes in one another. The current collaboration talks between France Telecom and Deutsche Telekom may lead to share swaps.

In general, privatisation is likely to be beneficial. In the UK, it has spurred BT to greater efficiency, delivering lower prices, better quality and increased choice. But there are also dangers. First, most governments are not opening up their markets at the same time as privatisation but waiting until they are forced to by the European Commission. Since this will not happen until at least 1998, monopolistic operators could lack the incentive to change their cultures.

Second, many governments want to keep substantial shareholdings so they can still influence key decisions. But too much political interference will compromise the efficiency and dynamism which would flow if management were free to manage in the light of commercial objectives. In so far as wider political objectives, such as the provision of universal service, need to be safeguarded it is preferable these are imposed transparently by an independent regulator.

Disturbing desire

Third, several governments are showing a disturbing desire to use alliances to block global competition. That seems a motive in the Franco-German talks and the parallel discussions between the duo and American Telephone & Telegraph, the US giant.

There should certainly be no ban on restructuring an industry which has been artificially fragmented on national lines. The creation of trans-European networks could abolish the "frontier effect", under which the price of international phone calls is three times that of national calls, and give users the benefit of one-stop shopping. But it is important that competing networks emerge from the restructuring process, not a pan-European or transatlantic cartel.

These dangers can be overcome, but only if both governments and the Commission have a clearer focus on liberalisation. At a national level, the priority should be to open up markets at the same time as privatisation, while establishing vigorous regulatory bodies to ensure that competitors gain fair access to monopoly networks. At the European level, the need is to discriminate between anti-competitive alliances and those which enhance competition. The Commission will also need to be more ambitious about its liberalisation plans. That way, privatisation will achieve its full potential.

Labour relations in Europe are not all gloomy, but there are some ominous trends, says **David Goodhart**

Wintry whiff of discontent

Striking Air France workers wearing masks block runways at Orly airport in Paris. Beefeaters at the Tower of London go on strike in protest at government plans to shake up the civil service. Workers in Italy and Germany take to the streets against government economic policy. In Spain and Belgium unions threaten to wreck social pacts designed to create jobs.

The events of the past fortnight might indicate that Europe is heading for a winter of industrial protest. But a closer examination reveals a less threatening and more confusing picture – one that nevertheless cannot be ignored by Mr Jacques Delors and other European Community policymakers seeking a blueprint for lower unemployment and greater competitiveness.

Much of the recent disruption has been limited to the public sector. Even here, nationwide protests have involved at most one-day stoppages. In none of the countries mentioned has there been any significant unrest in the private sector.

While public sector action is likely to continue sporadically, token protests must be viewed in the context of a continent deep in recession, with most governments pruning public spending in their efforts to contain large budget deficits. "What requires explanation is why strikes are so rare despite painful industrial restructuring and strong downward pressure on European wage rates," says Mr Peter Reid of the British Engineering Employers Federation.

The presence of 18m unemployed in the EC is part of the answer. The Air France dispute was about job security not pay. Similarly, protests in Italy and the UK have been primarily about jobs. And IG Metall, the German engineering workers' union, says this year's crucial pay round is about employment first and pay second.

Another part of the answer is to be found in the fragmentation of Europe's labour movements. The collapse of the Soviet Union has accelerated the decline of communist-led union federations in Spain and France. In France, the communist CGT no longer holds the majority of seats on the works committee at its one-time stronghold at Renault. Other former communist federations such as the CGIL in Italy have changed strategy and supported, for instance, the end of the *scala mobile* which linked pay to inflation.

Meanwhile, the non-communist union federations – Christian democrat, socialist or social democrat – are often linked to parties that see no virtue in public ownership for its own sake and in many cases recognise the need to introduce more flexibility into labour markets. In Spain, for example, it is the ruling Socialist Workers party that is trying to remove some of the formidable obstacles to sacking workers.

Finally, domestic and international competition has made industrial action in the private sector increasingly counter-productive. "Unions are no longer targeting the means of production but are aiming at high-profile protests, such as closing down motorways," says Mr Denis MacShane a leading international trade union official.

Despite these developments, the rumblings from Europe's weakened workers underline three ominous trends:

● The problems of union decline. Weak unions are no guarantee of industrial harmony. France, the centre of the most eye-catching recent disruption, has the lowest rate of unionisation in the Organisation for Economic Co-operation and Development. But Mr Michel Giraud, labour minister in the centre-right government, says he would like to be able to consult with stronger unions, because they would be more receptive to compromise.

Unionisation is denser in the French public sector than in the private sector, but the loose hold that union leaders have over the rank and file, even in the public sector, prevented an early conclusion of the dispute at Air France.

In many other EC countries, union strength is declining in the workplace even when they still have an important influence in national politics. In France and Spain, unions have concentrated on political lobbying and have gradually withdrawn from the messy business of representing real people with real concerns over job security and pay. At local level, the vacuum left by weak unions is being filled by ad hoc, and often aggressive, "co-ordinations" – growing fast in Italy and France.

● The just-in-time strike. Traditional strike action may be going out of fashion but a short, well-directed union blow can cause more damage than in the past. The closure of Orly airport by a few Air France workers illustrated how vulnerable modern economies can be to small-scale direct action.

This is a French tradition – the word sabotage comes from the French word for wooden clog, which workers used to throw into their machines – but it is not peculiar to France. In Italy recently, employees of Enichem, the state-owned chemicals company, carried out a violent occupation of their Crotone plant. The result was that the government shelved a plan to close the plant.

Just-in-time manufacturing techniques, which drastically reduce stocks, have exacerbated manufacturers' vulnerability. Two years ago fewer than 200 Arab workers at a Renault plant in Cleon, northern France, stopped making car engines and within days the entire Renault operation had come to a halt.

New technology also allows small groups of workers to inflict disproportionate damage. In the UK in 1989, strike action by a handful of computer operators stopped all local tax collection in Birmingham.

● New social contracts under threat. Most worrying, recent protests indicate that some EC governments might have to push through jobs and competitiveness packages without organised labour's support.

In both Spain and Belgium important sections of organised labour appear determined to reject "social pacts" which would create jobs, but also hold down wages for three years. In Spain the government's proposal includes an overhaul of costly dismissal procedures and in Belgium a reduction in employers' social security payments.

Such hostility bodes ill for Mr Delors' job creation plans. Next month he should publish a consultative paper arguing that over the long term the proceeds of European economic growth should be shared more widely and not appropriated by those in secure jobs.

European unions fear his proposals could mean tax cuts for employers but wage cuts and longer hours for employees, with no guarantee of higher employment. One EC official said: "It's not much good sharing out growth if there isn't any."

At European level the unions are likely to be offered the trade-off of legislation on European works councils – forums for informing and consulting workers in multinational companies. This is a low-cost item for companies but passionately desired by unions, which view it as a step towards Europe-wide bargaining.

At national level, or company level, trade-offs are more problematic for the unions. But the idea of reducing working time with a corresponding cut in pay – thus leaving unit labour costs broadly unchanged – is attracting growing political support.

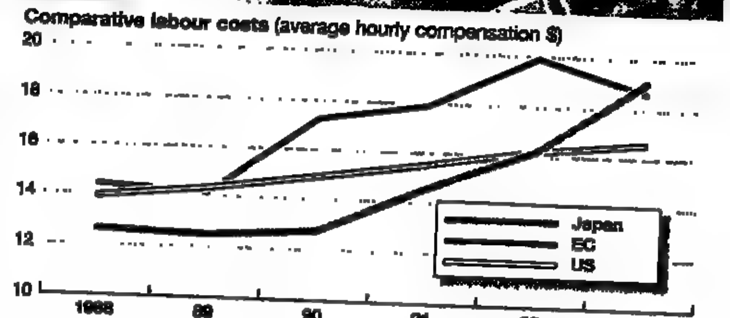
For instance, Volkswagen, Germany's problem-hit volume car-maker, is promoting the idea of work-sharing to avoid mass lay-offs. And a recent opinion poll in Germany found that half the population would work a four-day week for a reduced income.

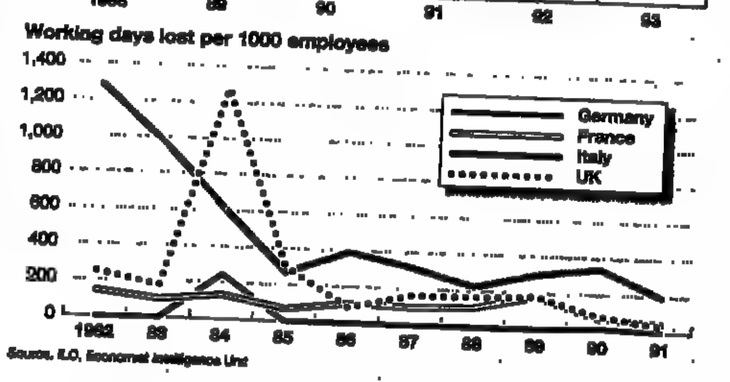
The European Commission and the French government also back the idea; the latter has just passed legislation to reduce companies' non-wage social costs if they cut the working time of existing workers by 15 per cent and hire at least 10 per cent more workers.

However, many leading industrial employers doubt that work-sharing is compatible with holding down unit labour costs. Equally sceptical, Air France workers reflected the reservations of many by rejecting a pay cut to save jobs.

Organised labour in Europe does not have the veto power it once did. But the events of the past few weeks suggest that it remains a factor to be reckoned with, at least in those countries where its rights are enshrined in law. If governments across Europe want union support for innovative plans to cut unemployment, they still have some persuading to do.

Unions: trouble on the labour front?





Source: ILO, Economist Intelligence Unit

Europe cannot afford to miss Asia boat

PERSONAL VIEW

For those of us living in Hong Kong, at the heart of the Asia-Pacific region, these are heady times. Every statistic shows the region as the most dynamic in the world, and likely to stay that way for the decade ahead.

The latest report of the Asian Development Bank predicts that the region's developing economies will achieve average annual gross domestic product growth of 7 per cent this year, compared with less than 2 per cent for developed countries. China, whose GDP growth has averaged 9 per cent over the past decade, is tipped to grow a further 13 per cent this year, and 10 per cent next year.

Pause a moment and think what that means for Asia's potential as a consumer market: an economy of 1.2bn people – about a quarter of the world's population – growing at about 10 per cent a year.

A new age of consumerism is emerging in Asia bringing breath-taking opportunities for trade and investment. To illustrate the point:

● By 2000, the economies of Asia will together be larger than those of Europe or North America, and will be home to two-thirds of the world's population. The number of affluent Asian households, with an annual income of \$30,000 or more, will rise by 50 per cent, to 50m homes. Average incomes in Hong Kong and Singapore equal the European average, and are already higher than those in the Irish Republic, Greece and Portugal.

● Asia's imports from Europe amounted to \$129bn in 1991 – \$21bn more than US imports of European goods. The region is already the largest buyer of Europe's food, chemicals, machinery, and textiles and clothing.

For its extraordinary potential to be realised, Asia needs the full engagement of companies from all regions, especially the advanced industrial economies. Indeed, Asia would not be where it is today, at the heart of international trade, without immense investment from countries outside the region.

But is Europe going to play the same role in Asia in the years ahead that it has played in the past, or will it look inward to the Single European Market as it struggles with recession? We see executives preoccupied with forging links with the emerging economies of east and central Europe. Will these priorities keep investment and management attention out of Asia – or at least on the margins – at a time of unparalleled opportunity?

A new age of consumerism is emerging in Asia bringing with it vast trade opportunities

I raise this because I feel uneasy about forecasts suggesting that the economies of east and central Europe will, within the decade, emerge from their transition from command economies. Hong Kong's experience as mainland China's principal joint venture partner in economic reform suggests that the transition will take longer. China's transition, while comparatively smooth, has not been free of economic and political difficulties. But by capitalising on a range of advantages, it has been able to put *perestroika* ahead of *glasnost* and motivated hundreds of thousands of entrepreneurial overseas Chinese to invest in their home provinces. Hong Kong on its border has acted as a funnel for potential investors, an efficient entrepôt, and as a base for Chinese companies to learn the ways of market economies.

If solutions to Europe's complex economic problems are to take years to unfold, can European companies afford to bury themselves in long-term prospects if it means neglecting opportunities to profit now from buoyant growth in Asia?

Opportunities in Asia may no longer exist once Europe has put its house in order. The US, for example, is hosting a meeting of the Asia-Pacific Economic Co-operation (Apec) forum in Seattle next week, which is intended to forge closer economic links between the US and wider Pacific region. The US has unveiled an export promotion programme intended to boost annual exports from almost \$700bn at present to \$1,000bn by 2000, with Asia as an important target for growth. Unless European companies move quickly there is a real possibility of missing the boat in Asia.

In raising the alarm my motives are not entirely philanthropic, because we in Asia will also pay a price if European companies are not fully engaged in the region. As leaders in innovation and high-tech production in many sectors, we need the stimulus Europe's companies would bring.

In short, we need Europe's companies in Asia. Hong Kong can provide a principal gateway to a new economic alliance between east and west.

Victor Fung

The author, who is chairman of the Hong Kong Trade Development Council, will be speaking at a conference in London today on the future of Hong Kong.

OBSERVER

Dealing a tough hand

■ Have you noticed that despite Edouard Balladur's attempts to appear even-handed in his reshuffle of France's public sector chairmen, socialist business leaders seem to have landed the most difficult jobs?

Take the highly respected Jean Peyrelevade, adviser to Pierre Mauroy's government in the early 1980s. He was not best pleased at being removed from the top of Union des Assurances de Paris to make way for Jacques Friedmann, a Gaullist and confidant of the French prime minister. His reluctance is easy to explain. The in-tray he inherits from Jean-Yves Haberer at loss-making Crédit Lyonnais is brimming with problems, from real estate losses in France to the debt-burdened MGM studios in Hollywood.

Haberer, himself a socialist appointee, is paying the price for his costly expansion strategy. His move to Crédit National – a much smaller institution than Crédit Lyonnais – is regarded as a demotion. Foreign shareholders in the bank are also disgruntled because they were not properly consulted.

Even Haberer, however, may consider himself lucky. Christian Blanc, a friend of socialist leader Michel Rocard, and Balladur's choice as the new head of Air France, has this week started to wrestle with the airline's workers. His task – to return the carrier to profitability without involuntary job cuts – could be the public sector's most poisonous challce.

Empty house

■ Still on the subject of political patronage, bets are starting to be laid on who is going to get the chairmanship of the Housing Corporation, one of Britain's biggest quangos.

Chairman Sir Christopher Benson is moving to the Schools Funding Agency in April and yesterday the government announced that one possible successor, deputy chairman Sir Norman Wakefield, was stepping down later this month.

Given that the Housing Corporation spends about £2.3bn – making it Britain's biggest house builder – its budget could come under attack in the next round of government cuts. Even so there are plenty of big names in the trade with time on their hands.

Sir Eric Pountain steps down as chairman of Tarmac in a few months, and Sir Clifford Chetwood, the ex-chairman of Wimpey, or Sir Nigel Broackes, the founder of Trafalgar House, would fit the bill on past form. It's the sort of post which in olden days would have counted towards a peerage.

Of the existing board members, solicitor David Kleeman's name has been mentioned. But as is indicated by Sir Norman's imminent departure, the job is likely to go to an outsider.

'My Mum's responsible for all the ills of the world – what's your Mum do?'

Euro-burble

■ Life at the great Euro-show in Strasbourg will be markedly duller when MEP Madron Seligman checks in his dispatch box next June. Seligman, who hails from the engagingly-named Sussex village of Nuthurst, regularly added a little colour to proceedings at the European Parliament by sporting a pink carnation furnished *gratis* by the Alsacian city fathers.

Never a shrinking violet, Seligman, who entered the Guinness Book of Records for the size of his majority in the 1979 Euro-elections, was on Monday evening reminded of an early piece of self-publicity.

Speaking at Seligman's 75th birthday party, fellow Balliol College alumnus Sir Edward Heath recalls playing the organ at his friend's wedding.

Confronted at the last minute with a sheet of music, Seligman in D, Heath duly sight-read the unfamiliar opus. Nearing the end, the bride was nowhere in view, so he returned to the top. The congregation finally heard Seligman in D 11 times.

Well, those Euro-MPs do go on.

Wanted man

■ UK-Brazilian relations have warmed considerably in almost four years since the sociable Paulo Tarso Flecha de Lima arrived as Brazil's ambassador to London. Tarso – who was appointed to the London post by now disgraced President Fernando Collor – is leaving at the weekend for the US where he becomes ambassador to Washington.

The outgoing ambassador is given much of the credit for persuading the British government, in the absence of a formal extradition agreement between the two countries, to start unprecedented special extradition proceedings against Paulo Cesar Farias, probably Brazil's most wanted man.

Farias – who fled Brazil and was living in London – was allegedly at the centre of a big corruption ring whose discovery eventually brought down Collor. However, since a warrant was issued for Farias's arrest last Monday, Scotland Yard appears to have seen neither hide nor hair of Farias.

Living proof

■ Legal, decent, honest and truthful – it's tough going for advertisers to stick to the Advertising Standards Authority's strictures. But now the four commandments have tripped up a church; the ASA's latest report, unveiled today, records that a complaint has been upheld against the Peniel Pentecostal Church of Brentwood, Essex.

According to its ad in a local newspaper, guest speaker Archbishop Benson Idahosa had "raised eight people from the dead". Following a complaint from a member of the public, the ASA concluded that the advertisers were "unable to provide substantiation" for the claim.

Slice of life

■ Thought for the day. What's the quickest way to a man's heart.
A knife in the back.

FINANCIAL TIMES
Wednesday November 10 1993

VW may bar managers in compromise with Opel

By Christopher Parkes in Frankfurt

SEVERAL top Volkswagen managers may be ordered temporarily to stop work if a compromise, reached yesterday between lawyers representing the German automotive group and rival Adam Opel, is approved by the two companies' boards later this week.

Prospects of a deal, which could end one of the legal battles between the groups, emerged after private negotiations in the back room of a Frankfurt court.

An open court hearing, called to consider an appeal from Opel, the General Motors subsidiary, that seven former GM group employees should be banned from working at VW for a year, was adjourned after Mr Heinz Traub, the presiding judge, recommended that the two sides should look for a compromise.

An earlier attempt by Opel to win a temporary banning injunction was turned down because, the court decided, the seven had been drawn to VW by the "charisma" of Mr José Ignacio López de Arriortúa, a former senior GM executive, who defected to Volkswagen in March.

However, further evidence has since emerged to strengthen Opel's claim that VW systematically poached key GM group employees, mainly production and purchasing executives.

According to sworn statements Mr López personally approached about 17 people. Volkswagen is still bound by a separate injunction not to continue this practice.

Closing yesterday's proceedings, Mr Traub said both companies had already been damaged by the affair.

Under orders from the judge to keep strictly silent or risk endangering the outcome, neither company would discuss yesterday's deal.

However, three or four of the seven, possibly including Mr Jorgé Manuel Gutierrez, head of VW production and Mr López's closest colleague, may be suspended from their normal work if the companies' boards approve the compromise before the end of this week – a deadline set by Mr Traub.

Agreement to such a compromise is likely to be seen as acknowledgment by VW that it was at least partly at fault.

Rejection will result in a full open court hearing next month at which Mr López could be called to give evidence. He spent yesterday waiting in an hotel near the court but was not summoned.

Criminal investigations are continuing into suspicions that he, Mr Gutierrez and a further two of the seven people involved in yesterday's hearing stole secret GM data before leaving for VW. A probe into possible perjury by Mr López is also under way.

EC's van den Broek may quit over dispute with Brittan

By Lionel Barber in Brussels

MR Hans van den Broek, the European Community's external political affairs commissioner, has threatened to resign if he fails to secure concessions in a long-running power struggle with Sir Leon Brittan, the EC's chief trade negotiator.

Sir Leon and Mr van den Broek are at loggerheads over who has management responsibility for the EC's overseas delegations.

Mr Van den Broek, a former Dutch foreign minister, claims he was promised exclusive management rights over the delegations as part of a delicate power-sharing agreement brokered by Mr Jacques Delors, commission president, last December.

A senior aide to Mr van den Broek said last night this agreement risked being reneged on. The aide said Mr van den Broek considered the matter a point of principle.

Some officials have suggested that Mr van den Broek has sought wider management responsibilities in a bid to expand his bureaucratic empire. "He's looking for soldiers," an official said.

The matter is set to come to a head today at a full meeting of the commission in Brussels.

Sir Leon and Mr van den Broek have been battling over division of responsibilities since they took up their posts 10 months ago. Part of the problem lies in the decision to split the external affairs portfolio previously held by Mr Frans Andriessen, the long-serving senior Dutch commissioner who left Brussels last December.

But Commission officials said Mr van den Broek had become progressively disenchanted with his present position which includes the ill-defined responsibility for political relations and the lead role in the enlargement talks with Austria, Sweden, Finland and Norway who have applied to join the European Union by January 1 1995.

By contrast, Sir Leon has revelled in his high-profile position as chief negotiator responsible for participating in the Gatt world trade talks. Under the Treaty of Rome, he enjoys statutory legal powers, a Commission official said.

The ratification of the Maastricht treaty – which includes provisions for a common European foreign and security policy – appears to prompted Mr van den Broek to demand more powers, specifically co-responsibility for appointing Brussels civil servants in any of the 110 offices overseas.

Clinton stiffens stance against plutonium

Continued from Page 1

British Nuclear Fuels at a cost of £2.8bn, is expected to produce about 60 tonnes of plutonium in the next decade if a British government review allows it to start.

Opponents of the plant have argued that such an addition to the already large global stockpile of plutonium can only increase the risk that weapons-grade nuclear material might end up in the hands of terrorists or rogue governments.

Congressman Pete Stark, the California Democrat who has led US opposition to the start-up of Thorp, said that Mr Clinton's letter sent "a clear message that the US does not want this plant to begin operation".

British officials, however, said they had received no representations from the US administration about Thorp.

Mr Clinton says in his letter that he has not called for a ban on all production of fissile nuclear material because that would breach existing US commitments and might lead to confrontation with Russia and the US's allies.

Congressional aides said, however, that the US's commitments were not to Thorp itself but to its biggest customers, Japan and Switzerland. "We have no existing commitment to support Thorp," a congressional staff member said.

Mr Clinton says non-proliferation policy is one of his top priorities, but the administration's position appears still to be evolving as it seeks to unravel some of the entanglements that have been created in recent years.

The administration must walk a tightrope between curbing the spread of plutonium or highly enriched uranium, which could be made into bombs, while not imposing such a tight rein that it hampers other countries' peaceful nuclear programmes, possibly even provoking some to drop out of the Nuclear Non-Proliferation Treaty, which is due for renewal in 1995.

"We have a lot of sympathy for the US's non-proliferation goals, but the US has to prove itself a reliable partner," one European official commented.

UK to raise concerns about EC trade data

By Emma Tucker, Economics Staff, in London

THE UK is facing three years of unreliable and incomplete trade figures following problems with the European Community's new system of measuring intra-Community trade.

The Central Statistical Office said yesterday it was delaying publication of complete visible trade figures for the first eight months of this year because a lack of data had made it difficult to seasonally adjust the figures.

The delay marks a further setback for Intrastat, the EC's VAT-based system for measuring trade that was introduced at the beginning of the year to coincide with the single market.

The problem has arisen as government officials from France, Germany, the Netherlands and the UK meet today to discuss the teething problems of the EC-wide system, which have proved far greater than expected.

Officials believed the method of collection would be operating smoothly by the middle of this year. But detailed figures are unlikely to be produced before the end of the year and even then, Belgium, the Netherlands, Denmark and Ireland are not certain they will be able to publish.

Statisticians in the UK say problems connected with seasonally adjusting the figures mean a reliable series of statistics for Britain's trade with the rest of the world will not be possible for at least three years.

The CSO said yesterday it needed another two days to "reassess seasonal and constant price adjustments made under the new system now in use throughout the EC".

Figures for Britain's world trade published this year have been stamped with a government warning about their reliability. The CSO wants to make the next set of figures – the last set before the Budget on November 30 – as accurate as possible to avoid embarrassing, large revisions.

The switch from a customs-based system of measuring intra-EC trade to one based on VAT returns has been beset by problems since its introduction in January.

Last month Eurostat, the EC's statistical office, said publication of up-to-date figures was being hampered by a slow rate of reply by companies, particularly small companies.

The UK has been quicker to produce monthly figures than other member states, although its plan to produce monthly figures by the end of July proved too optimistic.

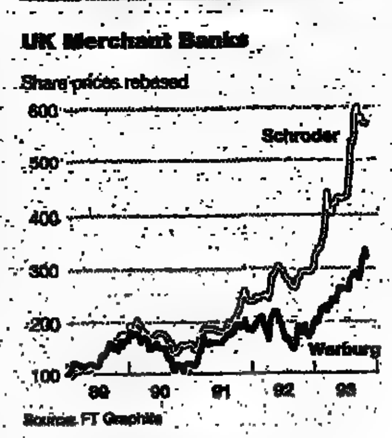
Pressure for today's meeting has come particularly from the UK, which is concerned that the new method of collecting data may be giving an inaccurate view of economic trends.

Some economists are concerned the unreliability of export and import price figures may have led to an underestimation of the level of output in the UK.

THE LEX COLUMN

Warburg opens its book

FT-SE Index: 3096.0 (+18.4)



Source: FT Graphite

The truth can sometimes disappoint as S.G.Warburg found to its cost yesterday. Its decision to break down its source of profits was laudable but the revelation that over half the £197m increase in first-half group operating income came from trading prompted a 2 per cent fall in its shares. The argument is that earnings from trading are by nature unreliable. The more Warburg becomes dependent on them, the lower the quality of its earnings stream. Fear of a similar bad reaction should not deter others who disclose even less. For example, outside investors cannot know for sure what truth underlies Schroders' astonishing share price performance. Living under illusion may be comfortable: it is also dangerous.

Those who wish to carp can find other faults with Warburg. It is reticent about the extent to which the contribution from Japan has improved and about the degree to which the £91m increase in fee income reflected one-off contributions from Zeneca and BT3. Its cost base has risen sharply – investors must have faith that spending can be pruned easily if revenue turns down again. Mercury Asset Management appears closer to saturation of the UK institutional market, though it is moving forward apace in private client business. Group net return on capital is still only 20 per cent.

Such a low return is hardly satisfactory if this is indeed an earnings peak. Yet to quibble on that score too may be to miss the point. US investment banks boast higher returns but they are also more highly geared. Warburg has surplus capital and could afford to gear up too. But if that produced a still higher return based on increased proprietary trading, the market could scarcely complain about the quality of earnings. Higher return and higher risk go hand in hand. The task for Warburg is to convince it has got the equation right.

US bonds

When the US bond market sneezed last Friday, many of the world's financial markets looked in danger of catching cold. It is thus natural that yesterday's US producer price figures should have a soothing impact further afield than Wall Street. Price rises in energy and building materials were expected, but in other respects output prices remain reassuringly weak. Especially weak areas such as car prices feed directly into retail prices – albeit in a more diluted form – so the chances of a nasty shock from today's data must also have receded.

If a sustained retreat in US bonds now looks unlikely, so does another bout of bullishness. The latest batch of figures cast little light on whether the recent spurt of economic activity can be sustained into next year. Job creation holds the key. A recovery led by productivity gains threatens little by way of inflation, but holds the promise of few new jobs. Financial markets will have to wait for the next set of employment figures for further evidence in that regard.

In the meantime, US bonds look caught between a lingering fear of inflation around the next corner and hard evidence that it was not lurking around the last. The final few weeks of the year could be choppy, and not just in US treasuries.

Great Portland

The 7 per cent rise in the value of a batch of Great Portland Estate's properties since March provides encouraging confirmation of the property recovery. Having been one of the first companies to reflect the severity of the downturn in 1990, Great Portland is now among the earliest to demonstrate the speed of the upturn. Yet it would be alarming if it were otherwise, given the surge in property shares over the past year. If anything, the suspicion is that Great Portland's revaluation may well understate the upturn in investment-grade property in central London. The market certainly presumes other companies will soon report double-digit rises in asset values.

However, Great Portland's reduced interim dividend and static rental income are a useful reminder that many property balance sheets remain stretched and the underlying market fragile. Investors have not worried much about such niceties while chasing the yield available from property shares and in the direct market itself. But the first signs are emerging that the yield obsession may be beginning to fade. Leading property shares have been groggy since the wobbles in the US bond market hinted that long gilt yields may be close to their floor. When that appears more certain, attention will switch to companies offering better prospects for rental growth. Ironically, it could then be the weaker companies, such as Great Portland, which boast low rental bases and empty space which find particular favour.

Anglian Water

Yesterday's solid interim figures aside, the stock market has decided Anglian will be among the losers from the forthcoming regulatory review. The 12 per cent slide in its shares over the last month is rougher treatment than that meted out to its peers. The low rate of return on new investment suggested by Ofwat last week is especially bad news for Anglian, which has a large capital spending programme. Its low interest and dividend cover relative to others in the sector leave little room for manoeuvre if faced with tough price limits in the second half of the decade.

The snag with such a firm conclusion is that many elements of the review have been left open by the regulator. Ofwat has said that it will squeeze water companies' profits down to its target 5-6 per cent rate of return on capital over a period of 10 years. But the speed of convergence will be tailored for each company. Anglian might thus expect more leniency than Welsh, which has an embarrassment of riches. Anglian's relatively weak balance sheet certainly demands softer treatment, although the regulator has given little away about how far it believes each company's financial ratios might be stretched. Without more information on that score, picking winners and losers remains a matter of gut feel. Anglian has charms of its own, such as an unregulated engineering business which should cover its costs this year. After the latest bout of derating, it can also boast the highest yield in the sector.

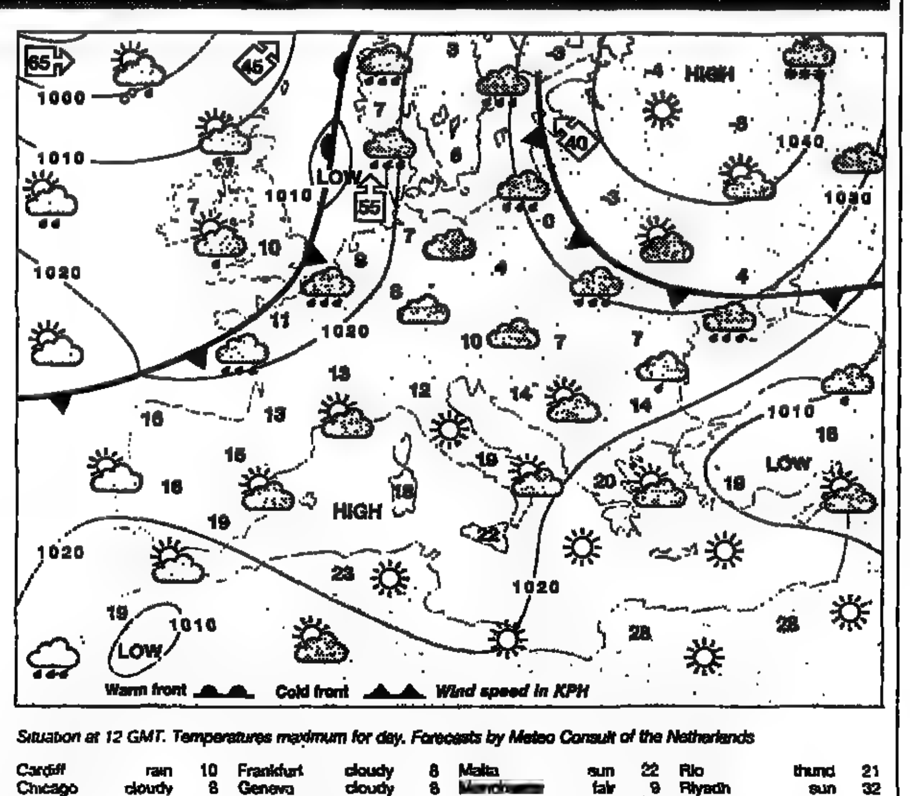
FT WORLD WEATHER

Europe today

A frontal zone from Scandinavia to the Gulf of Biscay will cause cool conditions. Large amounts of rain and gusty winds are expected in Norway, Denmark, the Low Countries and north-west France. Coastal regions of Norway and Iceland will have strong gale force winds. The British Isles will be drier with sunny spells and some showers. The grey, gloomy conditions over central Europe will move east bringing overcast but tranquil conditions to Germany, Poland and the Alps. In a zone from the Baltic states to the Black Sea, strong south-easterly winds are expected with cold and drizzly grey conditions. Wintry cold will remain over the central CIS with temperatures near Moscow not exceeding -9C. Snow showers are likely in the eastern-most regions.

Five-day forecast

Conditions will become more unsettled in most areas. The British Isles, Scandinavia and the Low Countries can expect a lot of rain. By the end of the week, strong disturbances will cross central Europe towards eastern regions. Only the western Mediterranean will stay mainly clear.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

Maximum Celsius

Abu Dhabi	sun	34	Belfast	shower	6	Cardiff	rain	10	Frankfurt	cloudy	8	Malta	sun	22	Rio	thund	21
Accra	fair	29	Belgrade	cloudy	9	Chicago	cloudy	8	Geneva	cloudy	8	Manchester	fair	9	Riyadh	sun	32
Algiers	sun	23	Berlin	cloudy	7	Cologne	cloudy	9	Gibraltar	fair	18	Manila	shower	33	Rome	sun	17
Amsterdam	rain	9	Bermuda	shower	25	D' Salaam	fair	29	Glasgow	fair	7	Melbourne	sun	19	S. Frsco	rain	18
Athens	fair	19	Bogota	cloudy	19	Dakar	sun	29	Hamburg	cloudy	8	Mexico City	fair	21	Seoul	fair	16
B. Aires	sun	29	Bombay	fair	35	Dallas	sun	18	Helsinki	cloudy	-3	Miami	cloudy	29	Singapore	thund	30
B.ham	shower	10	Brussels	rain	9	Delhi	sun	33	Hong Kong	fair	29	Milan	sun	13	Stockholm	rain	4
Bangkok	fair	36	Budapest	drzzl	7	Dubai	sun	31	Honolulu	shower	27	Montreal	snow	3	Strasbourg	cloudy	9
Barcelona	sun	17	C.hagen	cloudy	7	Dublin	fair	7	Istanbul	cloudy	16	Moscow	sun	-9	Sydney	shower	19
Beijing	sun	13	Cairo	sun	28	Dubrovnik	fair	17	Jersey	rain	11	Munich	cloudy	7	Tangier	fair	20
			Cape Town	fair	16	Edinburgh	fair	7	Karachi	fair	33	Nairobi	sun	25	Tel Aviv	cloudy	25
			Caracas	cloudy	30	Faro	fair	20	Kuwait	sun	29	Naples	fair	17	Tokyo	fair	16
									L. Angeles	sun	20	Nassau	thund	29	Toronto	shower	6
									Las Palmas	shower	22	New York	cloudy	12	Tunis	sun	22
									Lima	fair	23	Nice	fair	16	Vancouver	cloudy	10
									Lisbon	fair	17	Nicosia	fair	24	Venice	sun	12
									London	rain	12	Oslo	rain	5	Vienna	cloudy	7
									Lux.bourg	cloudy	7	Paris	rain	11	Warsaw	drzzl	0
									Lyon	fair	8	Perth	shower	21	Washington	fair	14
									Madeira	cloudy	20	Prague	cloudy	6	Wellington	shower	18
									Madrid	fair	15	Rangoon	fair	34	Winnipeg	fair	0
									Majorca	sun	19	Reykjavik	rain	3	Zurich	fair	7

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Muramoto warns its creditors
Muramoto, the Japanese construction company which last week filed for court protection with debts of up to Y590bn ($5.5bn), warned that creditors might recover only a small part of their cash. Page 18

Sega posts 4% increase
Sega, the Japanese games company which is challenging world leader Nintendo with its popular Sonic the Hedgehog games, reported a 20 per cent increase in sales to Y200.65bn ($1.25bn). Page 20

Australian SE on the spot
Pity the Australian Stock Exchange. It is due to release a discussion document on the thorny matter of "super" voting shares, an issue which has arisen in the context of News Corporation's desire to create two classes of shares with different voting rights. Many observers think that the exchange is in a bind. Page 20

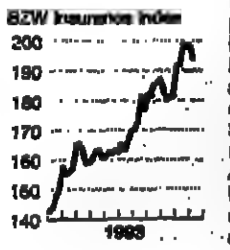
Italian telecoms' rebirth
Stet and Sip, Italy's two leading telecommunications companies, have interested international investors in recent months. Long-running and expensive modernisation programmes are nearing an end and tariffs are beginning to emerge from the straightjacket of state control. Page 22; Editorial Comment, Page 15

Anglian Water flat
Anglian Water, one of the largest of the UK's privatised water companies, reported virtually flat pre-tax profits of £100.5m ($151.75m) for the six months to September 30 but was confident it "might show some improvement on the full year". Page 26

Venezuela seeks oil investors

Venezuela has announced a [illegible] investment programme for its petroleum industry over the next 10 years that stresses a substantial increase in crude oil production capacity and the upgrading of oil refineries. The programme will depend heavily on foreign investment. Page 28

Insurance shares shoot up



Source: BZW/Datastream

Investors who spotted the potential of European insurance shares last year have seen their holdings appreciate impressively over the past 12 months. Shares in some companies, such as Germany's Aachener & Münchener (AMB), have almost doubled, and across the Continent insurance issues have outperformed local stock markets. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Colonia Konzern	1145	+	25
GEHE	486	+	6
Schering	1088	+	15
Falls			
Hochtief	1090	−	35
Linotype-Hell	343.5	−	16.5
Porsche	770	−	20

NEW YORK ($)			
Rises			
Amer Brands	33⅞	+	¼
Amer T&T	58½	+	⅜
Banc One	37⅝	+	1⅛
Philip Morris	55⅞	+	1⅛
RJR Nabisco	6⅞	+	½
Wal-Mart	28⅝	+	¼

New York prices at 12.30pm.

PARIS (FFr)			
Rises			
Axa	1457	+	38
Bancaire Cie	524	+	22
CCF	1240	+	29
Peugeot	671	+	18
UAP	642	+	15
UFB Locabail	395	+	15

TOKYO (Yen)			
Falls			
Amano Corp	1370	−	130
Aoki Corp	415	−	15
Chiba Bank	1050	−	40
Daimaru Inc	545	−	48
Mitsukoshi	870	−	34
Nippon Paint	529	−	48

LONDON (Pence)			
Rises			
Abacus	193	+	10
Alexanders	25	+	4
Avesco	104	+	[illegible]
Burton	76¼	+	2¼
Dickie (James)	91	+	16
Great Portland	213	+	6
Hornby	182	+	6
Kvaerner	215	+	7
Mulato	139	+	8
NMC	120	+	4
Northamber	59	+	[illegible]
Sunrise Energy	185	+	9
Wood (SW)	89	+	6
Falls			
Anglo 8¾% Prf	72	−	8
Cosalt	[illegible]	−	9
FII	280	−	61
First Leisure	257	−	20
Hadleigh	83	−	3
Harrington Kil	199	−	9
Intl Food Mach	35	−	19
Mercury Asset	879	−	23
Mirror Group	151	−	7

AT&T calms EC telecoms fears

Potential partners told competition will be 'low key' after liberalisation of the European market

By Andrew Adonis in London

AMERICAN TELEPHONE & Telegraph, the US telecommunications group seeking to establish itself in Europe, moved to reassure potential EC partners yesterday by downplaying the likelihood of aggressive competition in their home markets before the end of the decade.

Mr John Foster, AT&T's Europe director, stressed that outside the UK, telecoms competition was set to be low key for "years" after the European Commission's 1998 deadline for the liberalisation of internal EC voice telecommunications traffic.

"A lot of people assume that the world changes on 1 Jan 1998," said Mr Foster. In fact, there would be an "extended period" of transition. "It will be a matter of years before competition is developed at all fully."

He drew a parallel with the position in the US, where MCI, now the second largest long-distance carrier, took nearly two decades to establish itself as a strong competitor to AT&T.

Mr Foster declined to comment on current negotiations, but AT&T is known to be in talks with France Telecom and Deutsche Telekom about a possible link-up to create an international network for multinational companies.

The French and German state telecoms companies are believed to have drafted an agreement to merge their European and transatlantic business services, with a view to a possible partnership with AT&T. The two companies already have a joint venture – Eunetcom – to serve the "outsourcing" market among multinationals. A stronger Eunetcom, allied to AT&T, would give their international ambitions greater credibility, but they fear the threat of domestic competition from AT&T after 1998.

Mr Foster said AT&T's priority was to find a suitable European partner for its Worldsource venture in the next few months. Worldsource, launched this May with KDD of Japan and Singapore Telecom, is targeted at the market for one-stop telecoms services among the world's leading 2,500 transnational companies. Its strongest rival is an alliance of British Telecommunications and MCI.

A senior Commission official yesterday welcomed the impetus to greater competition given by the EC's liberalisation drive. Mr Herbert Ungerer, an official in the telecoms directorate, said the EC's telecoms companies were "moving from the age of being an elephant – the criticism of being unresponsive to customers – to market participants with an active market strategy."

The Commission can veto any alliance involving France Telecom and Deutsche Telekom. Some of its advisers are concerned at the threat posed by AT&T, and are keen to see European operators form closer ties.

Editorial Comment, Page 15; Starry-eyed investors, Page 22

Nextel plans US digital network

By Louise Kehoe in San Francisco

NEXTEL, a rapidly expanding US mobile data communications services company, plans to construct an advanced digital communications network in the US that will compete with existing cellular telephone services.

Under the plans, Nextel is buying licences to operate mobile communications services in several of the largest metropolitan areas in the US from Motorola, the makers of semiconductors and communications systems, in a deal worth around $1.8bn.

Nextel has purchased licences from Motorola covering the use of more than 2,500 radio frequencies in 21 states. Motorola will receive a 20 per cent stake in Nextel and is providing $260m in new financing.

These arrangements will result in a total of more than $500m in financing being provided by Motorola, Nextel said. "We view this transaction with Motorola as the capstone of our acquisition campaign," said Mr Morgan O'Brien, chairman of Nextel.

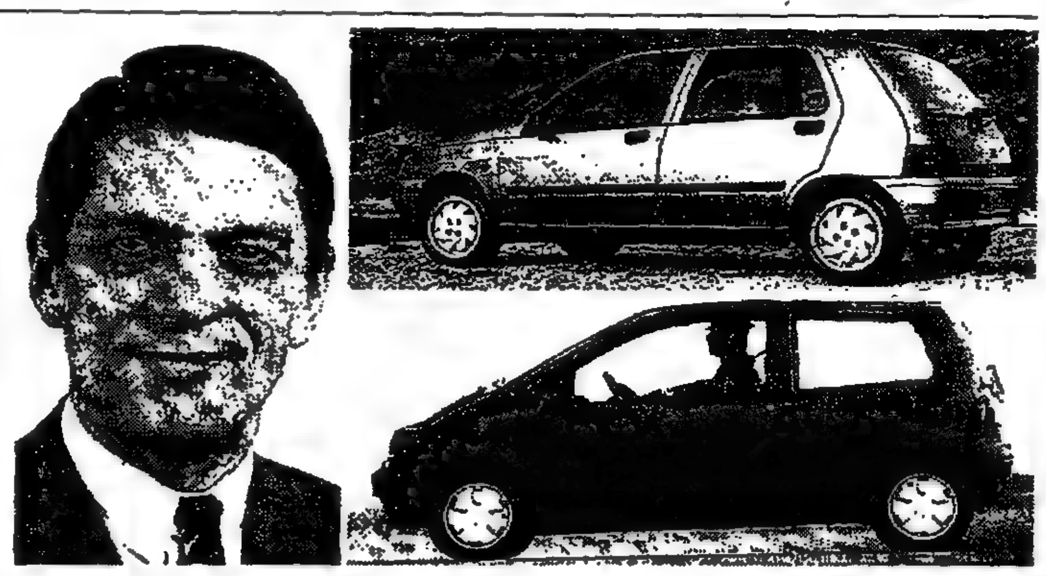
Nextel's goal is to upgrade all of these systems with digital technology developed by Motorola, which will provide the company with equipment and technical assistance. For Motorola, the biggest operator of dispatch services in the US, the sale reflects its previously announced decision to offer technology and equipment rather than provide services.

Nextel also announced that it has reached a technology alliance with Nippon Telegraph and Telephone of Japan. NTT has also taken an equity stake in Nextel, purchasing 1.5m shares for $75m. NTT will assist Nextel in developing its digital wireless network.

When fully constructed in 1995, Nextel's networks will be capable of reaching 180m people across the US, the company said. Services will include mobile telephone, dispatch, alpha-numeric paging and data transmission from a single mobile telephone handset.

Already, Nextel has started offering its integrated digital services in southern California. The company said that its services will cover most of the state within the first quarter of 1994. New services will be available in New York and Chicago by mid-1994. Nextel said the services will represent "the wireless portion of an information superhighway".

ABB enters robot venture with Renault



Stelio Demark (left) of ABB Robotics said the link would give ABB access to Renault's production line expertise. ABB has already worked on Renault projects including the Clio (top) and Twingo (above)

By John Ridding in Paris

ASEA Brown Boveri, the Swedish-Swiss engineering group, yesterday strengthened its position in the market for industrial robots, by agreeing to acquire the robotics operations of Renault and form a joint venture in automated vehicle assembly with the French car group.

The two companies said the 50-50 venture would employ about 290 people and have annual sales of about $80m. After the acquisition of Renault's robotic operations, ABB's French robotic operations will have annual sales of about $80m and employ about 200 people.

Mr Stelio Demark, managing director of ABB Robotics, said that the deals with Renault were a central element in the company's strategy of shifting from a product supplier to a partner of industrial groups in the design and manufacture of automated systems. He said that the joint venture, which will centre on "body in white" activities – where cars are assembled and welded together – would give ABB access to Renault's production line expertise and enable it to offer higher value-added products and services.

The proposals, which require final approval by Renault employees, would give ABB its first joint venture project with a carmaker, the biggest market for robotics, and its first direct participation in the assembly stage of the production line.

Mr Demark said that prices for industrial robots had fallen by between 25 and 30 per cent over the past few years, prompting the Renault sale.

Renault's robotics operation, the largest in France, accounts for about 12 per cent of total sales of FFr1.4bn ($238m) from its automation division. The French group will retain management control of the separate joint venture for at least two years.

According to Mr Demark, the market for industrial robots has strong growth potential, in spite of the fall in prices. He said that while in Japan there are 25 robots for every 1,000 manufacturing workers, the ratio is lower in Europe: in France, there are three robots per 1,000 workers.

ABB estimates that it has about 20 per cent of the world market for robots with more than 33,000 currently in operation. Last year, ABB's robot division achieved sales of about $350m. ABB has worked with Renault on several automation projects, including the Twingo and Clio cars. It also supplies Volvo, with which Renault is planning to merge.

Warburg nearly trebles its pre-tax profits

By Norma Cohen, Investments Correspondent

SG WARBURG Group, the UK-based investment bank, yesterday reported pre-tax profits for the six months ended September 30 nearly trebled to £148.8m from £51.2m in the year-ago period.

Earnings per share rose to 39.9p from 24.7p.

The group for the first time provided a breakdown of revenues, detailing the very significant contribution which marketmaking and proprietary trading made. Analysts said the figures, which had not been expected in such detail, were partly responsible for knocking the Warburg's share price down 20p to 857p yesterday in spite of its report of record six-months earnings. The group also raised its interim dividend to 6p per share from 5.25p.

Warburg said fees and commissions provided revenues of £302.5m, up 42 per cent on the six months ended September 1992. Of that, "perhaps less than 10 per cent" were advisory fees earned on Warburg's two largest international equity offerings: the £5.4bn stake in British Telecom sold on behalf of the UK government and the demerger of pharmaceuticals company Zeneca from ICI.

"Everyone tends to overstate the profitability of the trophy transactions," said Lord Cairns, Warburg's chief executive, noting the heavy costs associated with the BT and Zeneca offerings.

Marketmaking and proprietary trading revenues were £140.6m, up from £39.8m.

Group operating costs also rose significantly during the period, with personnel costs up to £224.5m from £146.1m in 1992.

Return on capital for the investment banking division – exempting Warburg's 75 per cent stake in Mercury Asset Management – was 25 per cent pre-tax, Lord Cairns said.

Of the £1.26bn in regulatory capital employed by the group, £1.05bn was deployed in investment banking.

Lord Cairns said the group would be devoting greater capital in future to developing its derivatives business, expanding on its recent acquisition of KC-CO, a Chicago-based firm. "We have a significant amount more to do," he said.

Geographically, Lord Cairns said that all regions "contributed to profitability", but declined to elaborate.

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MAM expands, Page 27

Barry Riley

A common theme for twin dips in markets

Global investment strategists are on red alert. Two of the world's biggest securities markets, in US Treasury bonds and Japanese equities, have hit trouble. The 30-year Treasury long bond yield flipped up from 5.78 per cent on October 15 to 6.21 per cent last Friday, a correction proportionately almost as severe as the 9 per cent tumble in the Nikkei Dow over the past three weeks.

The Tokyo stock market generally shows scant correlation with markets elsewhere, so we can probably put the timing of these twin dips down to coincidence. There is a common underlying theme, though, in that both markets have been sustained by low short-term interest rates that may have encouraged investors to lose sight of the underlying realities.

My own view is that the longer-term outlook for US Treasuries is still fair, although there may be a turbulent period in the immediate future.

Yesterday dollar bonds were rallying; Japanese equities, I guess more pessimistically, are embarking on the fourth substantial downwards leg of Tokyo's extended bear market.

From almost 7.5 per cent in January, the Treasury long bond yield has been declining all year – until mid-October. The bull market in bonds has been sustained by two main factors, the profitable yield curve play for the banks, funding themselves off a 3 per cent money market rate, and the search for yield by investors.

As far as the latter are concerned, it seems that the fall in returns below 6 per cent began to cut off the demand: net sales of mutual funds investing in bonds fell from $15.4bn to $11.8bn between July and September.

As for the banks, the question has always been how abruptly the freakishly steep yield curve up to five years will be flattened by a rise in short-term rates: US Treasury bond investors can pick up 150 basis points of yield at 3 years. UK gilt-edged buyers almost nothing.

Forecasts of the date of the first tightening by the Federal Reserve have recently varied between the end of next year and the end of next week. The latest evidence of a strengthening of the US economic recovery has encouraged a rush for the exit. If up to $300bn of Treasuries must find new buyers the yield adjustment could be quite sharp.

Evidence of US economic recovery has encouraged a rush for the exit

Certainly, the first quarter-point rise in US short rates will be regarded as just the first step of many.

Over in Tokyo we have the mirror image of this problem, the appearance of further evidence that the economic problems of Japan are dire.

Much of the huge expansion of industrial capacity in the 1980s at a more or less zero cost of capital has turned out to represent massive waste. The underlying, but largely hidden, bankruptcy of much of the property and construction sector – and by extension, much of the financial system – is gradually emerging into daylight.

Myths of the skilful official manipulation of the Tokyo stock market have been devalued by the disruptive announcement of a new Nikkei 300 index and the bungling of the JR East privatisation.

The bulls had been relying on potential support from very low bond yields, based upon the ratio between JGB yields and company earnings yields on the convenient assumption that profits will soon start to "normalise". But we are now in the 1990s, and I believe that to draw conclusions from the historical levels of various yield ratios during the "bubble" period of the 1980s is a worthless exercise.

An unfortunately-timed example was the advice from Warburg Securities three weeks ago that the moment had come to move back into Japan. This was based *inter alia* upon a bond yield-related measure described as the "cross-holdings adjusted earnings yield gap", and on hints of "official" support below 20,000 on the Nikkei.

The common theme in Japan and the US has been the low level of short-term interest rates. But the difference has been in the economic circumstances. So the JGB market has brushed aside the problems of equities in Tokyo, and Wall Street equities have only suffered minor damage from the correction in Treasury bonds.

Forget the historical ratios, look at the prospective fundamentals.

Muramoto gives warning on repayments to creditors

By William Dawkins in Nagoya

MURAMOTO, the Japanese construction company which last week filed for court protection with debts of up to Y590bn ($5.5bn), yesterday warned that creditors might recover only a small part of their cash.

Leading bank lenders could get half of their loans back, if Muramoto, Japan's largest post-war financial collapse, was put into liquidation, said Mr Katsusuke Amano, a lawyer representing the group.

Low priority creditors might retrieve less than 1 per cent of their cash in the case of a liquidation, warned Mr Amano, who is helping the group to persuade the courts to agree to a restructure rather than liquidation.

A meeting of about 400 suppliers in Nagoya, one of the main towns in the region where Muramoto is based, heard that the group owned property and land valued at about Y300bn in its books. Mr Amano warned the market value was lower, due to the fall in asset prices which preceded this recession.

Mr Toyohiro Muramoto, group president, presented a ritual apology to the meeting and begged for suppliers' understanding.

"I could not overcome this situation, but we still hope to keep the company going," he said. Suppliers were unsympathetic and questioned Muramoto executives for more than two hours in a hotel conference room on payments.

Suppliers would from now on be paid in cash, subject to authorisation by court officials, said Mr Amano. Employees have been asked to continue work on the group's 535 outstanding contracts. Muramoto has Y10bn of cash in hand, which should enable it to complete 80 per cent of that work, said Mr Amano.

Muramoto is awaiting the decision of a court in Osaka, the regional capital, on whether it should be restructured and turned into a going concern, or made bankrupt and liquidated. The court's investigators will take three to six months to make up their minds, said Mr Amano. If allowed to stay in business, Muramoto would take 10 to 15 years to recover, he said.

Muramoto, Japan's 24th largest contractor, filed for protection from creditors after banks withdrew support.

Estimates by Teikoku Databank, a leading credit research group, that the group's debts totalled Y590bn were probably too high, said Mr Amano.

He calculated group debts at Y466bn, of which Y290bn was owned by the parent company and Y176m by subsidiaries.

The final figure would depend on the results of the court investigation and the market value of Muramoto's property, he said.

Lloyd's investment trust plan scrapped due to lack of capital

By Richard Lapper in London

PLANS to launch a Lloyd's investment trust were scrapped yesterday, indicating that the appetite of institutional investors for new Lloyd's corporate capital schemes may be reaching its limit.

Lazard Brothers, Cazenove and Octavian Group, one of the largest Lloyd's agencies, issued a pathfinder prospectus to raise capital for the Nelson Lloyd's Trust last Thursday.

However, yesterday Nelson announced that "in current market conditions there could not be sufficient assurance that the company would be able to raise the initial target capital of £60m ($90.6m) on which its investment and underwriting strategies were based."

Mr Nigel Rogers, of Octavian, said: "Institutions have set aside a certain amount of money but there is not a bottomless pit". Nelson had "come a little bit late in the day. Today was the day we set for responses. Some were good but it was clear we were not going to meet the target figure".

The withdrawal follows some other setbacks for backers of Lloyd's funds. HCG Lloyd's Investment Trust and CLM Insurance Fund scaled down the amount of capital raised, because of difficulties in obtaining sufficient "good quality" capacity on Lloyd's syndicates.

Last week Johnson Fry, the financial services group, abandoned plans to launch a "fund of funds" to attract retail investors after raising only £8m of its £15m target.

Even so, over the last two weeks 10 funds have raised more than £500m from institutional and retail investors. The biggest trust, the London Insurance Market Investment Trust (Limit), sponsored by James Capel and Samuel Montagu, successfully placed an issue for £280m with institutions last Wednesday.

At least five other investment companies and trusts plan to raise up to £650m in launches over the next few days. One Lloyd's agency, the Hiscox Group, which has launched one investment trust, is so confident about prospects that it yesterday unveiled plans to raise a further £25m for a second trust.

Trading in the shares of Hiscox Select Insurance Fund, a £30m trust launched last month, began this week. The shares closed yesterday at 110p, a premium of 10p.

The new trust, Hiscox Dedicated, will provide capacity only to the four syndicates managed by Hiscox Syndicates, the group's managing agency. It will not seek a full listing for the new trust, although it will seek a facility to trade its shares on a matched bargain basis under rule 535 (2). Charterhouse Tilney, which sponsors Hiscox Select, will support the new fund.

Costain rights issue take-up disappoints

By Andrew Bolger and Andrew Taylor in London

A £83.9m rights issue by Costain Group, the troubled UK construction and mining company, was supported by only 28 per cent of the group's shareholders.

This left most of the new shares with institutional investors which underwrote the fund-raising.

The 5-for-4 rights issue at 30p per share will cut Costain's heavy borrowings and underpin its US coal mining business.

Costain shares, which peaked at 366p in 1987, closed unchanged yesterday at 29½p on the London Stock Exchange.

The company said that the take-up was lower than it would have preferred but the nature of the issue meant that it was always likely sub-underwriters would receive more shares.

Sir Christopher Benson, chairman, said: "The sub-underwriters include several large institutions which have reiterated their support as shareholders in the group."

Robert Fleming, which had a 7 per cent stake in the group, will see its stake rise to about 17 per cent, making it the largest individual shareholder.

Mr Peter Seabrook, fund manager with Robert Fleming, said the outcome was disappointing but not surprising. His institution was taking a long-term view of Costain as a potential recovery stock.

There was some criticism about Mr Peter Costain continuing as the group's chief executive when it announced in September its second rights issue within two years. An issue in 1991 raised £77m.

One institution said last night that the important decision to support the refinancing, and Mr Costain, had been taken when the sub-underwriting was agreed.

The group ran into trouble after investing heavily to expand its housebuilding and commercial property operations as the UK property boom was peaking in the late 1980s.

German stores join merger queue

David Waller reports on the likely marriage of Karstad and Hertie

IT is an open secret that the supervisory boards of Karstadt and Hertie, two of Germany's biggest retail groups, are finalising details of a merger of the two companies. The full story is likely to emerge at a press conference on Friday morning in Frankfurt.

A merger would create a new force in German retailing, combining Essen-based Karstadt, Germany's biggest department store chain with sales of DM20.6bn ($12.1bn) last year and Frankfurt-based Hertie, the third biggest with sales of DM7bn.

The group will have turnover of DM28bn and 238 outlets. It will eclipse Kaufhof, Karstadt's Cologne-based rival, as Germany's largest department store chain, but in terms of sales will be smaller than each of Metro, Tengelmann and Rewe, three of Germany's privately-owned retail groups.

Both Karstadt and Hertie have the disadvantage of being part of the sluggish department stores sector.

This segment of the market, which accounted for almost all of the privately-owned Hertie's turnover last year and 65 per cent of Karstadt's, has been in decline for decades as consumers have switched their preferences to specialty retailers and discount stores. The downturn in consumer spending which is part and parcel of the recession has made matters worse.

Hertie derives 30 per cent of its turnover from just six, well-known stores, including the KaDeWe – Kaufhaus des Westens – in Berlin. But these flagships did not give the group any immunity from the long, slow decline of the department store sector and Hertie spent much of the 1980s battling with losses. The group has been making profits for the last five years but the economic downturn has taken its toll and profits dropped to DM16.7m last year from DM56.6m in 1991.

While analysts credit Karstadt with being well managed, its dependence on the department stores segment (which accounts for 65 per cent of revenue) has led some brokers to put the group's shares on their sell list. Earlier this year, it said that profits in 1993 would probably fall from the DM224m made last year in spite of a slight increase in turnover.

This is in marked contrast to the optimism shown by Kaufhof, Karstadt's arch-rival since both were founded about 125 years ago. Kaufhof is predicting that sales will grow by 10 per cent this year and profits will rise considerably from last year's level – reflecting the group's moves away from department stores into the speciality retailing sector.

A fusion of Karstadt/Hertie is unlikely to lead to a sudden spurt in profitably, but it does open horizons for the combined companies. "The merger will give Karstadt an excellent and rare opportunity for long-term growth in its sector," said Ms Sabine Blümel at Crédit Lyonnais Securities in London.

The growth is likely to come from rationalisation as the two groups sort out their stores portfolio so that they no longer compete with one another directly on the high street.

In addition, there will be scope for further cost reductions as the combined companies pool their purchasing activities.

This will help Karstadt/Hertie compete more effectively with the Swiss-based Metro empire. This controls Asko Deutsche Kaufhaus and Kaufhof among an extensive portfolio of German retail interests and enjoys the purchasing power which comes with having worldwide sales of more than DM70bn, the bulk in Germany.

If the depressed background to the department stores sector provides the main catalyst to the merger, the role of Germany's big banks should not be underestimated.

Deutsche Bank, Germany's biggest bank, and Commerzbank, third biggest, own 25 per cent each of Karstadt. These shareholdings date back to the 1930s when they stepped in to rescue the group from near bankruptcy.

Germany's big banks are keen to reduce their controversial holdings in German industry and it seems likely that their stakes will drop to 10 per cent each as part of the deal.

The most likely structure for the deal, which may value Hertie at up to DM1.8bn, will involve the banks selling the bulk of their holdings in Karstadt in return for the shares in Hertie, which is 97.5 per cent owned by a charitable trust. The banks will then sell on the Hertie shares in return for cash which Karstadt will probably raise through a mixture of debt and equity finance.

However the deal is structured, it will have to be approved by Germany's federal cartel authorities. Analysts say they are unlikely to block it but may force the combined group to sell some stores in Berlin, where it will have a high share of the market.

Remy Cointreau sales rise 12% to FFr2.6bn

By John Ridding

REMY Cointreau, the French wines and spirits group, yesterday said its sales had risen by 12.2 per cent to FFr2.6bn ($441m) in the six months ended September.

The group said it had increased sales in all of its four principal divisions and forecast that pre-tax profits for the April-September period would be about 20 per cent higher than the FFr104m achieved in the same period in 1992.

The strongest growth during the first half was recorded in champagne sales, which rose by 26.3 per cent to FFr252.2m.

The group said its principal brands, Krug, Charles Heidsieck and Piper Heidsieck, had achieved the increase in sales without lowering prices.

Cognac sales, which include Remy Martin, also enjoyed strong growth.

Turnover in the division increased by 22.4 per cent to FFr1.1bn during the period. However, the group's liqueurs, wines and spirits sales saw much slower growth and increased by just 2.5 per cent to FFr727m.

Last year Remy's net profits fell sharply – by 25 per cent to FFr202m – on the back of difficulties in the champagne market where producers were severely squeezed by weak demand and high grape prices.

Veba declines despite growth in core area

By David Waller in Frankfurt

VEBA, the German conglomerate, yesterday reported a near 12 per cent decline in pre-tax profits for the first nine months of this year, in spite of growth in the group's core energy activities.

The group said pre-tax profits dropped by 11.6 per cent to DM1.064bn ($655m) on turnover up 0.7 per cent to DM49.59bn in the nine months. Net profits after tax dropped by 14 per cent to DM453m from DM527m.

Veba saw no improvement in the economic environment in the last quarter of the year, and no improvement in earnings.

Earnings from electricity grew because of an increase in sales combined with good capacity utilisation at its power stations. But in chemicals the earnings position continued to be unsatisfactory, with large losses coming in particular from the synthetic materials and rubber divisions, the group said.

The losses reflected the costs of restructuring in the chemicals sector. Veba said it was cutting 10,000 jobs this year and next, with the bulk of the cuts falling in its chemicals businesses, with the aim of trimming DM1.2bn off its cost base.

Earnings from trade and services matched the comparable figure for last year while the oil sector posted a sharp decline.

Western Mining warned on accounts

By Nikki Tait in Sydney

WESTERN Mining Corporation, the diversified mining group, has revealed that the presentation of its year-end results has fallen foul of the Australian Securities Commission (ASC), the country's stock-market watchdog. The warning came less than 24 hours before its annual meeting.

In a statement made jointly with the ASC, the company noted its preliminary final statement on September 2, "dealt firstly with the company's profit results by reference to equity-accounted profit and group consolidated profit before abnormals, and subsequently dealt with equity-accounted profit after abnormals.

"After receiving a complaint, the Australian Securities Commission assessed the matter and concluded that undue emphasis has been given in WMC's public announcement to the equity profit before abnormal items of A$165.9m", it continued.

The ASC is now asking WMC to change the order in which it deals with its profit results, so that consolidated profits after tax and abnormals become the first item in public announcements. Last time, this would have shown a surplus of A$64m (US$42.9m), compared with a loss of A$3.5m in the previous year.

WMC defended the previous prominence given to equity-accounted profit on the grounds that "the significance of the company's Alcoa holding should be identified to shareholders", but said that it would in future meet the ASC's request.

Recession erodes Seiko and Citizen

By Michiyo Nakamoto

JAPANESE watchmakers, which once seemed set to dominate world markets, are being slowed down as their profits are badly eroded by recession and a high yen.

Seiko, Japan's leading watchmaker and a world-renowned brand, plunged into loss, while Citizen, its main Japanese competitor, saw pre-tax profits decline 17 per cent.

Japanese consumers have been discouraged from buying new watches by the recession, and corporate buying of gifts has declined.

Against this environment, Seiko reported a pre-tax loss of Y3.21bn ($2m) in the first half against a profit of Y1.60bn previously. Turnover for the watchmaker was 11 per cent down to Y121.84bn from Y137.41bn.

Sales at Citizen also came under pressure but the company managed a moderate increase in turnover to Y134.23bn from a previous Y133.78bn.

Pre-tax profits, however, were 17 per cent down to Y6.29bn (Y7.58bn).

The outlook remains poor for the watchmakers and both Seiko and Citizen are expecting a drop in full-year sales.

Seiko is forecasting a 4 per cent decline in sales to Y358bn and a pre-tax loss of Y4bn. Citizen, meanwhile, is expecting to report a 9 per cent decline in sales to Y230bn and a 41 per cent drop in pre-tax profits to Y10bn.

Sega posts 4% increase at halfway as sales climb

By Michiyo Nakamoto in Tokyo

SEGA, the Japanese games company which is challenging world leader Nintendo with its popular Sonic the Hedgehog games, increased sales and profits in the first half of the year, but could not escape the effects of recession altogether.

Sega, which makes amusement hall games as well as video games for home use, reported a 20 per cent increase in sales to Y200.65bn from Y167.34bn and a 4.4 per cent increase in pre-tax profits to Y28.58bn.

The company said it had seen strong demand for its arcade and home video games, but it had not been able to avoid entirely the slowdown in consumption, particularly in Japan where the sluggish economy has affected job security.

The company said that its commercial games machines had seen a slowdown in demand as businesses refrained from making new purchases. In the video games market, consumers have become increasingly selective and competition was fierce. The Japanese market, in particular, has seen products being discounted heavily.

Sega said that it expects to increase its market share in the consumer video games market by introducing Sonic the Hedgehog III, software for its line-up of 16-bit games machines, hand-held video games and CD-ROM players.

It is forecasting sales for the full year of Y380bn, up from Y346.94 and pre-tax profits of Y57.5bn against Y55.02 previously.

Fujitsu revises forecast down

By Michiyo Nakamoto

FUJITSU, the Japanese computer and telecommunications group which controls the UK-based ICL, revised its forecast downwards for consolidated results in year to March.

The company, which had hoped to break even at the net level, now expects to report a consolidated net loss.

Fujitsu said that due to the delayed recovery of the Japanese economy, the rapid appreciation of the yen and the depressed state of the US mainframe market, it was revising its pre-tax forecast down from Y50bn ($31m) to Y35bn.

Sales are now forecast to reach Y3,150bn rather than Y3,280bn as forecast in May. The company also expects to report a net loss of Y39bn rather than break-even.

Fujitsu reported a consolidated pre-tax loss of Y24bn on sales of Y1,451 for the first half. It managed, nevertheless to report a consolidated net profit of Y44bn.

MIM Holdings returns to the black

By Nikki Tait

MIM Holdings, the Brisbane-based metals group, told shareholders yesterday it had moved into the black in October, after reporting an operating loss of A$6.9m (US$4.6m), before abnormal items, in the first quarter of the current year.

The company also suggested asset sales may be on the cards.

It said all the group's investments had been reviewed and the relevance of some interests to the group's core business questioned.

"You will have noted we have disposed of our shareholding in Evan Deakin Industries . . . we sold our small investment in Lynas Gold . . . these will be followed by others," said Mr Bruce Vaughan, chairman.

Questioned later about the possible sale of coal assets, he said the group was "turning every stone over". "Maybe coal is a big stone that takes a bit of turning over. It is being looked at in accordance with all the other options we are considering," he said.

China Light turns in 12% rise for year

By Simon Holberton in Hong Kong

CHINA Light & Power, one of the stocks on the Hong Kong market most favoured by foreign investors, yesterday produced slightly worse than expected full-year results when it posted a 12 per cent growth in net profit to HK$3.5bn (US$2.2bn) from HK$3.2bn in 1992.

Profit was struck on a 10 per cent rise in turnover to HK$14.7bn from HK$13.4bn. A final dividend of HK cents 42 a share was declared making HK$1.20 for the year – a rise of 15.4 per cent. A bonus 1-for-5 scrip issue was also made.

Analysts said the market had been expecting a rise in earnings of around 14 per cent and that yesterday's results were "a little duller than expected". They said next year's earnings would benefit from property developments currently in the pipeline.

China Light said that its sales of electricity to China have been affected by the austerity measures introduced by the Chinese government to cool the mainland's economy. Total sales for the year amounted to 25,598m KW – up 10 per cent on last year's sales – but the rate of increase in sales in the coming year was expected to be lower.

The company said that it has taken an important step in exploring investment opportunities on the mainland. It said it has formed a subsidiary, China Energy Investment, to pursue these opportunities and is currently negotiating a number of power station projects in China, including a long-term co-operation agreement with the electricity authorities in Shandong province.

In Hong Kong, the company said local sales of commercial and domestic electricity have shown strong growth (8.2 per cent and 12.8 per cent respectively) but that sales to industry had fallen by 5 per cent during the year.

Australian SE put on the spot by News Corp plan

Nikki Tait looks at the dilemma facing the ASX over the thorny problem of super voting shares

PITY the Australian Stock Exchange. Today it is due to release a discussion document on the thorny matter of "super" voting shares, an issue which has arisen in the context of News Corporation's desire to create two classes of shares with different voting rights. While the paper itself will come to no firm conclusion – merely outlining the options and asking for formal comment – many observers think that the exchange is in a bind.

Since News Corporation's chairman, Mr Rupert Murdoch, first announced the "super share" plan at the company's annual meeting last month, there have been no official details of how the scheme would work. Nevertheless, it seems that existing shareholders would receive the new shares pro rata to those already held – perhaps one for 10. Each new share would have multiple voting rights – say, 25 votes.

Whatever the precise mathematics, the multiple voting rights would only apply to the new shares so long as they were not transfered. In short, Mr Murdoch – who currently speaks for about 33 per cent of News Corp's equity, either directly or through the family company, Cruden Investments – could enjoy creeping control over time, as other investors sold out. He could also raise money by selling ordinary shares, without risking significant dilution.

The problem for the stock exchange is that, if it endorses the principles involved in this scheme, it moves against the trend in some other international markets. In London, in particular, there has been a steady effort to weed out differential voting structures, with big companies – like Hammerson, the property group – making the switch to a one-vote, one-share system.

Moreover, the stock exchange would have to make super share schemes available to all and sundry. Already, one corporate lawyer in Sydney says her clients have been tentatively exploring their options should a green light given to the News Corp plan.

But if the ASX turns the scheme down, News Corp could move overseas, delisting from the Australian market in favour of a more tolerant regime. At the annual meeting, Mr Murdoch noted that "similar arrangements have long been in place in many of the great media companies of the US and Europe". Although he did not mention specific companies at the time, the statement would be true of Dow Jones or Pulitzer Publishing.

News Corp's departure would have a significant impact on the Australian stock market. In terms of market capitalisation, the company accounts for almost 8 per cent of the All-Ordinaries index. Last month, trading in News Corporation shares represented 7.62 per cent of the market's total turnover. *Only* one company – Broken Hill Proprietary – is more important to the market on these measures.

The fund management community has not made the ASX's position any easier, by indicating its qualms over the News Corp plan. The Australian Investment Managers Group says it has reservations about the principles involved and will now poll members, in order to deliver a formal submission to the ASX. Mr Ian Matheson, executive director of AIMG, expects a fairly unanimous result: "My feeling is that there is an overwhelming opposition to what is being proposed," he said yesterday.

Remarks at the weekend by the California Public Employees Retirement System (Calpers), the large US institutional investor, also decrying the principles involved, may be more helpful. At least they suggest that News Corp might not have a universally favourable reception if it did contemplate a shift to the US.

Meanwhile, super voting shares will not be the only matter dealt with in today's discussion paper. The ASX is also expected to look the issue of "targeted shares" – which are designed to reflect the performance of one specific division within a company.

In this case, the question arises in the context of New Zealand-based Fletcher Challenge, which is seeking to create a class of shares which would be tied to the performance of its plantation, forestry and log trading businesses in New Zealand and Chile. These, it hopes, would trade on the ASX as well as the NZSE and the New York SE.

TO date, "targeted shares" have been a US practice, featuring companies like USX and General Motors. However, even bankers who have promoted their use there, admit that targeted shares tend to be most useful where a full "demerger" of the division in question is not possible. To date, companies which have pursued this road can be counted on the fingers of one hand.

That said, such schemes do raise questions over the allocation of voting rights – that is, how these should be divided between the different stock classes. However, their contentiousness fades in comparison with that of non-transferable "super voting" shares. There seems little doubt which issue will give the ASX a bigger headache.

Singapore Telecom rises 20%

SINGAPORE Telecom, the recently partially-privatised post and telecommunications utility, has announced pre-tax profits for the six months to September of S$776.7m (US$487.4m), a 20 per cent rise over the same period last year, writes Kieran Cooke in Kuala Lumpur.

ST said turnover in the six months was S$1.58bn, a 14 per cent rise over the equivalent period last year.

ST reported an extraordinary profit in the six-month period of S$44.2m from the disposal of shares in Singapore Press Holdings, the island republic's largest publishing group.

About 11 per cent of ST was floated on the Singapore stock market at the beginning of November. Initial share transactions put a market valuation of S$70bn on ST.

Advance at Mayne Nickless

MAYNE NICKLESS, the Melbourne-based transportation and healthcare group which takes in Parceline, Interlink and Security Express in the UK and has interests in continental Europe, said yesterday it had seen an improvement in first-quarter profits, writes Nikki Tait.

Both Interlink and Parceline had put in "strong performances", shareholders were told at the company's annual meeting. However, Mayne admitted that, in some markets, prices were under pressures and volumes were showing little increase.

Mr Bill Bytheway, managing director, said that the group expected to show an improvement in profits in the coming year – helped by a resolution to problems with transport divisions in Spain and Italy.

NEWS IN BRIEF

SIA takes stake in Cambodian airline

SINGAPORE Airlines is to take a 40 per cent stake in Royal Air Cambodge, a new airline due to be launched in Cambodia in mid-1994, writes Kieran Cooke.

Other shareholders in the new airline will be the government of Cambodia and a group of Cambodian investors. SIA did not disclose the value of its investment in the new airline.

SIA says it will provide day-to-day management of Royal Air Cambodge (RAC) and provide the new airline with pilots and technical specialists. SIA will also appoint one of its personnel as RAC's managing director.

The existing national carrier in Cambodia, Kampuchea Airlines, is likely to be merged with RAC and provide services on both international and domestic routes.

Aiwa doubles pre-tax profits

AIWA, a medium-sized Japanese audio-visual maker, has outperformed some of the giants in the electronics industry, writes Michiyo Nakamoto.

The Sony subsidiary has reported a doubling of pre-tax profits on sales which were up by 6 per cent in the first half of the fiscal year despite the stagnant market for audio-visual products in Japan and the adverse impact of a high yen.

Sales were up 6 per cent to Y81.73bn ($757m) while pre-tax profits were more than double at Y2.3bn from Y1.15bn a year ago.

The company's mini mini component stereos were a major contributor to its improved profits. In the US, overall sales were up by 60 per cent on a yen basis despite a 12 per cent increase in the yen's value, largely on the strength of the mini mini component stereo.

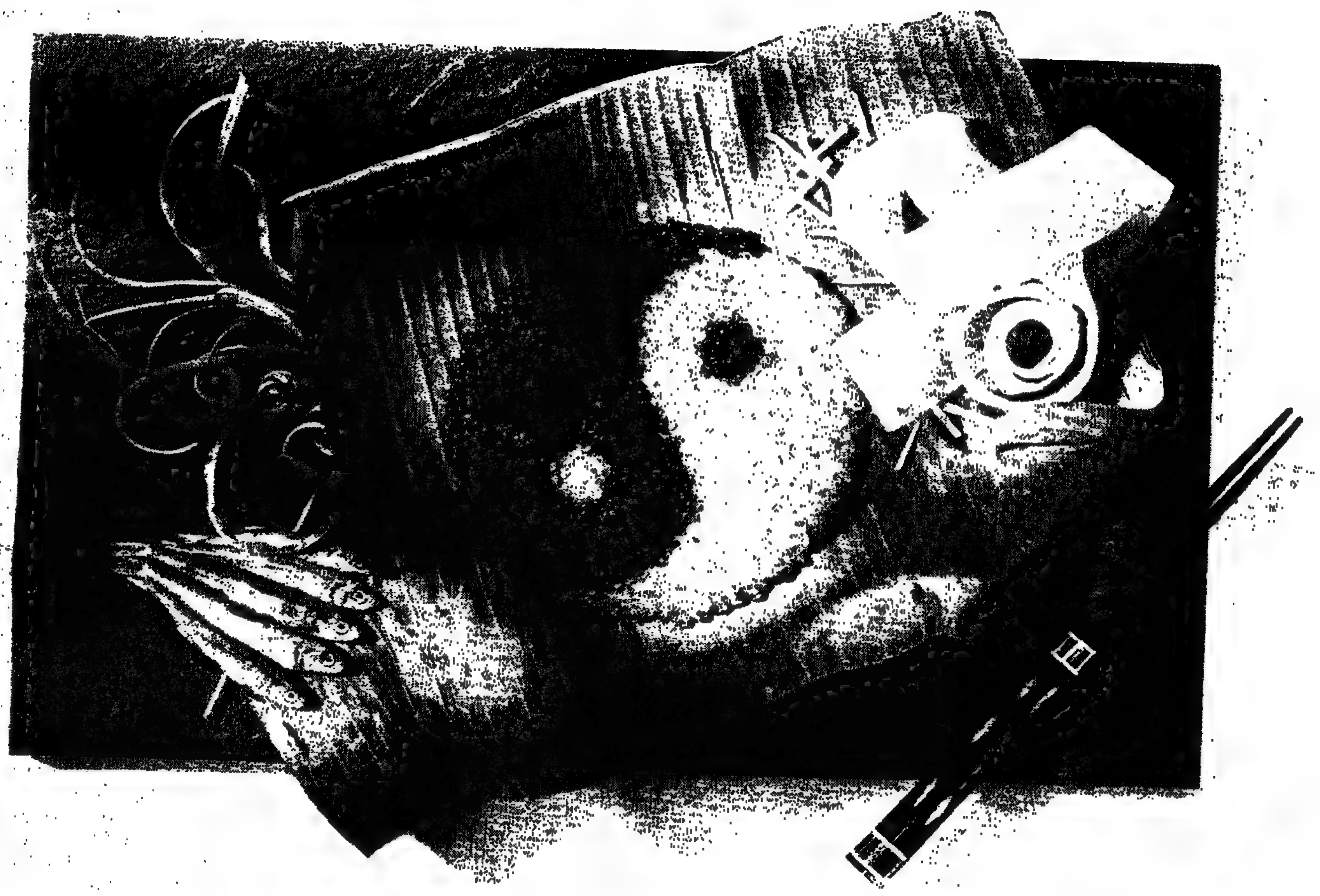
Kanebo hit by sluggish sales

KANEBO, the Japanese synthetic fibre and cosmetics manufacturer, was hurt by sluggish sales of its food and fashion goods due to the cool summer and poor textile sales, writes Emiko Terazono.

The company posted a 92.4 per cent fall in unconsolidated pre-tax profits to Y219m ($2m) for the first six months to September. Sales fell 16.2 per cent to Y219.9bn, while after-tax profits declined 97.4 per cent to Y20m.

The company will forego dividend payments for the first half.

Doing Business with Confucius.



It's a well-known fact: some Asian countries are among the world's leading economies.

The success of the Confucian philosophy in the computer age.

Looking closer at the causes, one of the first things that springs to mind are the teachings of Confucius, dating from over 2,500 years ago – a school of thought which laid the groundwork for an unusually favorable economic environment.

The foundation for success has been built on an uncompromising recognition of competence, the importance of getting a good education, and especially the individual's profound feeling of being at one with both society and his employer.

It goes without saying that such strengths, which have evolved over generations, also involve duties. For in order to sustain the climate of harmony, each individual is expected to comply with various, and at times subtle, rules of behavior.

To take an example: those much-beloved and protracted business dinners are not designed primarily as a medium for business negotiations.

But by fostering a state of harmony and creating the correct atmosphere, they do help one successfully conduct business.

If in the course of negotiations you are confronted with a situation where you could in some way cause your counterpart to "lose face," you should refrain from persisting even if you are clearly in the right. You can expect this demonstration of good will to be met with grateful recognition, even if none of those present openly show it.

By behaving in this way, you will have by no means lost influence. On the contrary, you will have shown that you have taken to heart the most important rule of conduct: in a dignified manner, always permit your counterpart to save face. And by doing so, you will also further your own interests.

Business in Asia requires patience and time. But once accepted, you'll always be accepted.

Dresdner Bank has been an active and respected member of the Asian business scene for many years now, with nearly five hundred committed professionals – both western and eastern – serving customers with their experience and expertise.

Our customers know they can rely on us to help bring their interests into harmony with the various Asian markets, each with its own particular local business customs.

Striving for harmony as a formula for competitive success.

And yet, every day even we still learn something new.

That is how it should be. For, in the words of a Chinese proverb, continually striving to secure longterm success is more important than "quickly plucking a feather from a passing goose."

Dresdner Bank

Greek building group seeks to raise Dr5.9bn

By Kerin Hope in Athens

AKTOR, Greece's largest construction company, plans to raise Dr5.9bn ($24.5m) in fresh equity through a flotation on the Athens stock exchange.

The company is to increase its capital base by 25 per cent, the minimum requirement for a listing on the Greek bourse. It will issue 1.69m new shares.

The shares, with a nominal value of Dr250 each, will be offered at Dr3,525. About half the issue is to be placed abroad by James Capel, the UK securities house.

The listing is being underwritten by Midland Bank and Société Generale, with two private Greek banks, Credit Bank and Piraeus Bank.

Aktor is controlled by the Bobolas family, which also owns an Athens daily newspaper and holds a stake in Megachannel, Greece's biggest private television station.

The company said 60 per cent of funds raised through the listing would be used for working capital, while the remainder would cover purchases of new machinery.

Aktor is one of a dozen local construction companies competing for large public works contracts in Greece, estimated to be worth Dr1,200bn over the next five years.

More than 70 per cent of funding for the projects will come from the European Community under the Delors II aid package for infrastructure improvements in poorer member countries. The rest, meanwhile, will be provided from the Greek state investment budget.

Aktor is participating in several big projects being co-financed by the EC, including construction of a 500km pipeline to carry Russian natural gas from the Bulgarian border to Athens.

The company forecasts pre-tax profits for 1993 of Dr2.4bn, up from Dr1.01bn last year.

Turnover is expected to reach Dr10bn, compared with Dr5.1bn last year.

Three other Greek construction companies are being floated on the Athens stock exchange. Last week, shares in Aegek, seeking to raise Dr1.6bn, were oversubscribed more than 100 times.

Greece's construction sector is dominated by private family-controlled companies, which finance most of their operations from private funds to avoid high interest rates, now at around 24 per cent for working capital.

However, the need to ensure a steady cash flow and invest in new equipment in order to win EC-financed projects is expected to encourage other construction companies to join the stock market.

Starry-eyed investors await Italy's telecoms rebirth

Haig Simonian examines speculative interest in the reorganisation of the state-controlled Stet and Sip

Shares in Stet and Sip, Italy's two leading telecommunications companies, have gyrated this week as investors grappled with the dilemma of matching glowing economic prospects with domestic political uncertainty.

Though majority state-owned, the two stocks count among Italy's leading blue chips. Their prices closely reflect general investor confidence in Italy as much as the companies' own financial expectations.

However, both groups have moved into focus in recent months. Telecoms stocks are in vogue among international investors. The Italian companies are particularly attractive, because long-running and expensive modernisation programmes are nearing an end, and tariffs are beginning to emerge from the straight-jacket of state control.

Privatisation has added a new speculative lustre to the shares. Last month, Lehman Brothers, a close Stet adviser, issued a bullish investment report on the stock entitled "A Star is (Re)Born".

Such enthusiasm is still running ahead of reality. After years of dithering, disorganisation, inter-company rivalries and plain mismanagement, Italy's telecoms sector is set for long overdue rationalisation.

No other big European country has such a complex patchwork in the telecommunications field. Stet, the overall holding company, presides over a collection of separate companies, some quoted, with activities covering domestic telephones services (Sip), intercontinental traffic (Italcable), equipment manufacturing (Italtel) and network services (Sirti). Separately, ASST, controlled directly by the ministry of posts and telecommunications until last year, and now renamed Iritel, handles domestic trunk calls and some international traffic.

Each has is own, sometimes overlapping, responsibilities, board of directors, buildings and even chauffeurs, adding significantly to costs and confusion.

The reasons for the profusion are political, based on the need to share out jobs between coalition parties, all craving for their allocation of top state-sector patronage.

That is about to change. Under a new project, approved in principle by the government earlier this year, the separate layers will be rationalised to create one company, expected to be called Telecom Italia.

The new entity, whose precise structure remains vague, should group all the telephone services now conducted by Sip, Italcable, Iritel and Telespazio. The first step is due early next year, when Sip and Italcable are planned to merge.

While attractive in principle, details of Telecom Italia have yet to be fleshed out. Still to be decided are the fates of Sip's highly profitable cellular telephone business, and the outlook for the Italtel equipment manufacturing side.

Italy now has Europe's third-biggest cellular network, with about 1.1m subscribers. So far, Sip has a monopoly, although several private groups are jostling to win the long-awaited mandate to set up a second network. When that will come about remains uncertain, as do vague suggestions by the government that Sip's cellular business would be spun off separately.

Italtel's future is also in the balance. Although not expected to form part of Telecom Italia, which will concentrate on services, Italtel is an important element in the Stet group.

Executives from Stet and Italtel, which is 20 per cent-owned by AT&T of the US, have for months been talking with other leading telecommunications equipment makers to broaden Italtel's ownership structure. The outcome of the negotiations, designed to broaden the company's access to international contracts, remains unresolved.

While the broad future of Italy's telecoms sector has been defined, many gaps remain to be filled. The government and the Iri state holding company, which controls Stet, have indicated they are prepared to float a majority of the shares.

Observers remain confused as to whether Stet itself, or the future Telecom Italia, will be the privatisation vehicle, although the latter seems more likely. The government is also undecided about the precise structure of the future telecoms business.

Its continued indecision has been reflected in its failure to appoint merchant banking advisers for the sell-off.

The delay lies in underlying political differences about privatisation, which have not yet been resolved. Some ministers are pressing for a UK-style public flotation. Meanwhile others, led by Mr Paolo Savona, the industry minister, want to create a "hard core" shareholding group, in which leading Italian technology companies, such as Olivetti and Pirelli, would form a prominent part.

Mr Savona's argument is believed to be based on the claim that only by linking industrialised companies closely with the telecoms sector will it be possible to guarantee their future role at the forefront of that sector.

Though apparently protectionist in scope, the aim is more to keep Italian companies abreast of the latest developments in the increasingly overlapping telecoms and information technology businesses than to exclude outsiders.

Critics, however, say any attempt to create a privileged position for domestic companies will damage telecoms privatisation.

Investors will be put off by the idea of a domestic "hard core", which will reduce liquidity of the privatised stock. And creating a close link between the privatised telecoms company and the biggest domestic suppliers could compromise independence in purchasing and equipment decisions, affecting long-term profitability, it is argued.

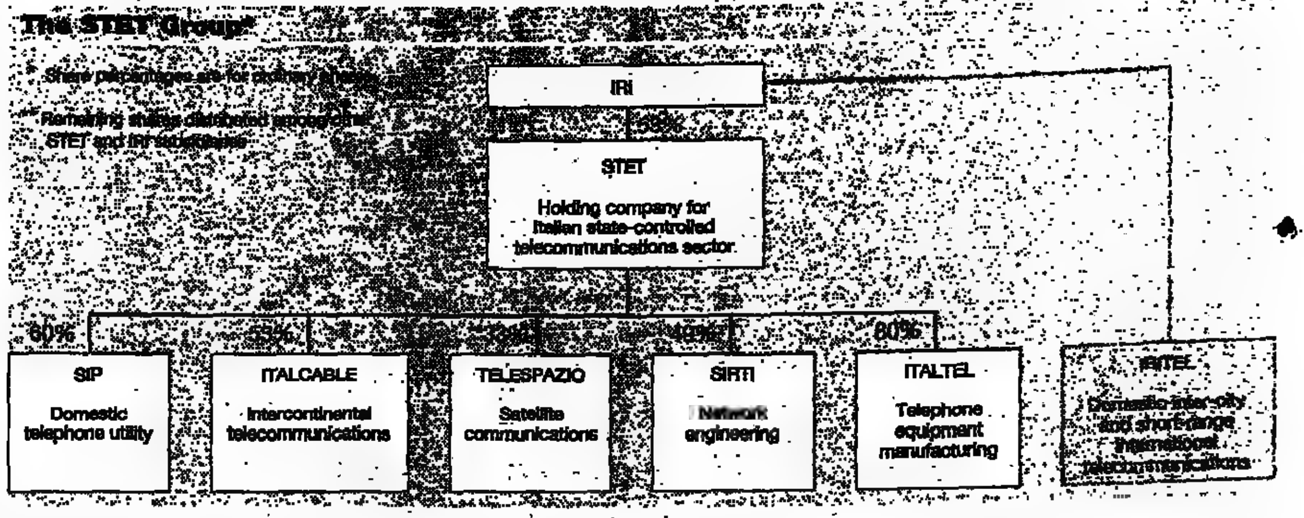
The appointment of advisers on privatising Italian telecommunications will have to await government decision on just how the sector should be restructured.

With domestic politics in a particularly volatile state, the decision may be handed over from the present government of prime minister Carlo Azeglio Ciampi to a successor formed after the next elections, widely expected early next year.

Whoever decides will also have to rule on the thorny issue, still being debated behind-the-scenes, on what role should be reserved for Italian companies in the shareholding structure of any privatised telecoms concern.

This is the concluding piece in a series on the privatisation of Europe's state telecommunications operators. The other articles appeared on October 11, 26, 28 & November 4.

See editorial comment



Kajima writes off Y50bn

By Robert Thomson in Tokyo

KAJIMA, the Japanese general contractor, will write off losses of Y50bn ($462.7m) arising from the liquidation of a wholly-owned subsidiary active in developing Australian properties.

The decision by Kajima reflects a trend among Japanese construction companies, which acquired large property portfolios in the US, UK and Australia in an aggressive expansion during the 1980s.

However the companies, including Shimizu and Kumagai Gumi, found overseas markets far tougher than they had imagined, and the burden of carrying loss-making properties has increased as profits from the domestic market have slipped over the past two years.

The group's net profit forecast for the year to March was revised down from Y8bn to Y1bn, and the forecast for parent net profit was cut from Y18bn to Y10bn.

Genbel to expand securities trading arm

By Philip Gawith in Johannesburg

GENBEL, formerly the investment arm of Gencor, South Africa's second-largest mining house, has announced a two-pronged reorganisation. It plans to restructure its core investments and expand its securities trading operations.

Genbel's repositioning centres around strengthening Unisen, the investment trading arm. It wants to give the group a more dynamic role than previously, when it functioned mainly as a long-term investment holding company with a strong commodities focus.

The restructuring flows from the recent unbundling of Gencor, the company which helped establish Genbel to help finance Gencor projects. Although Genbel will retain close ties with its main shareholders – Sankorp and Rembrandt will, as concert parties, hold 35 per cent of Genbel – unbundling has given it the opportunity to chart a new course less closely tied to the fortunes of the Gencor group.

Mr Anton Botha, managing director, said the spur for the group's transformation to a "dynamic portfolio holder and securities investment trader" had been its success, through Unisen, in the trading markets. Over the last five years, Unisen has achieved an average total return, per annum, of 38.5 per cent, compared with 23.3 per cent for the Johannesburg stock exchange's All Share Index.

The aim is to significantly enlarge Unisen's trading portfolio, with the object of materially outperforming the index over time.

Unisen has had assets of about R200m ($59.5m) over the last three years. However Genbel's recent restructuring and the transfer of gold shares into Unisen has boosted its net assets to about R1bn.

INTERNATIONAL COMPANIES AND FINANCE

Double-digit rise for Wal-Mart in third quarter

By Frank McGurty in New York

WAL-MART, the world's biggest retailer, grew even larger in the third quarter, as its expansion strategy paid off in a double-digit increases in sales and profits.

The Arkansas-based discount-store operator posted net income of $518.7m in the three months to the end of October, an 18 per cent improvement on profits of $437.8m in the corresponding period of 1992.

Earnings were 23 cents a share, compared with 19 cents, when adjusted to reflect a two-for-one stock split in February.

Wal-Mart's sales performance was even more impressive. Revenues climbed 23 per cent to $16.8bn in the quarter, compared with $13.6bn a year earlier.

Same-store sales – an important measure of retailing strength – showed an 8 per cent improvement, against 5 per cent through August.

Wal-Mart continued to push into new markets, as part of a strategy that enables the company to offer "everyday" low prices by maximising its buying power.

In the third quarter, the company opened 56 new Wal-Mart stores (and closed two), expanded 11 others and opened 16 more Sam's Clubs, which offer deep discounts to members. The net addition of retail floor space was 10.9m sq ft.

The company now operates a total of 1,989 Wal-Mart outlets and 326 Sam's Clubs.

In addition, Wal-Mart is preparing to integrate 91 Pace warehouse clubs which last week it agreed to acquire from Kmart, the second biggest US retailer. The move, part of consolidation in the segment, serves to cement Wal-Mart's dominance.

The results, which were in line with Wall Street's expectations, helped lift the share price by $⅞ to $29 in early trading.

● The Limited, the US speciality-store operator, showed signs of recovery in the third quarter, following a poor performance in the first half.

Net income rose 2.8 per cent to $82.2m, on sales of $1.61bn, a 0.3 per cent uptick on the corresponding three months of 1992. Earnings per share were 23 cents, against 22 cents a year earlier.

The company said several of women's clothing businesses continued to show weakness, but strong performances by Victoria's Secret, Express, Structure and other chains helped lift revenues. Overall, The Limited reported a 1 per cent gain in same-store sales.

Wall Street bankers keep a wary eye on the Fed

Patrick Harverson analyses an unprecedented period of profitability for the US securities industry

WINTER is approaching and New Yorkers, already worried about high levels of crime and unemployment, are just recovering from a dispiriting Mayoral election race.

Yet, on Wall Street, the city's investment bankers and stock brokers are still striding out to work every day with a spring in their step.

They have every reason to be confident. Results released in recent weeks showed that in the third quarter, US brokerage houses and investment banks maintained the record-breaking pace of profits growth they have set over the past two and a half years.

Every big publicly-quoted securities firm reported growth in third-quarter earnings. On average, earnings rose by 63 per cent between July and September, well ahead of the average 24 per cent increase achieved by US corporations during the quarter.

As in the previous 10 quarters, Wall Street's profits were fuelled chiefly by three factors

● Low short-term interest rates, which sustained high stock and bond prices and allowed firms to borrow cheaply and invest the money in higher-yielding assets, thus boosting net interest income and trading profits;

● Heavy corporate demand for securities underwriting services, which kept investment banking revenues buoyant;

● Strong interest among individual and institutional investors in the stock and bond markets, which translated into high brokerage commission revenues and asset management fees.

A more recent development was also apparent in the latest earnings data – the rising contribution from firms' mergers and acquisitions business.

Over the past year the once-dormant domestic M&A market has enjoyed a resurgence, and Wall Street firms have earned huge fees advising companies involved in billion-dollar transactions in the telecommunications, media, healthcare and banking industries.

The result has been an unprecedented period of profitability for the securities industry. Yet, while it is well into its third year of record earnings, Wall Street is aware the good times cannot last for ever.

The performance of the securities industry has always been tied closely to the fortunes of financial markets and the level of interest rates.

When rates are low and markets strong, Wall Street prospers. When rates start rising, however, markets can stumble, and the industry's earnings can shrink quickly.

The downturn in this cycle often hits Wall Street especially hard, because in the good times the industry has a tendency to lose control of its costs by paying its employees too generously and by hiring too many extra staff.

This is what happened at the tail end of the 1980s, a period which culminated in the industry-wide losses of 1990.

Today, however, Wall Street is in better shape to cope with any downturn in the industry's business cycle. For a start, firms have generally kept a tight rein on costs.

Although employee compensation (the largest component of industry costs) has risen with profitability, management has adopted a more rigorous approach to pay policy.

Bonuses are now more closely related to performance, and firms have been awarding a larger part of employee bonuses in the form of stock.

As a result, compensation takes up less of firms' net revenues. At the end of June, compensation expenses accounted for 50.1 per cent of net revenues at New York Stock Exchange member firms.

By comparison, at height of the last profits boom in 1987, compensation expenses took up some 58.5 per cent of net revenues.

As Mr Michael Flanagan, securities industry analyst at Lipper Analytical in New York, explains: "The industry has taken great steps in controlling costs. Its cost structure this time around is in a much better shape than in the past.

"Employees are paid more like shareholders, and management has been very careful in adding staff during this cycle. The result has been a significant improvement in productivity and profitability," he added.

Keeping a lid on staffing levels has been particularly important. At the end of June, 228,600 people were employed by NYSE member firms, only 9.4 per cent more than were employed when the industry's employment cycle last hit bottom, in early 1991.

Mr Flanagan says: "The underlying theme to employment policy has been to let revenues develop before increasing staff and overheads accordingly. In the past, staffing and overhead expenses led revenues."

Yet, while cost management may have improved, Wall Street remains hostage to market-related cycles. This is in spite of the progress firms have made in developing businesses which provide a steady stream of cycle-proof revenues.

Over the past five years, Wall Street has built up its asset management businesses in the hope that the recurring revenues they generated would smooth out the bumps in the industry's always volatile earnings stream.

The contribution of asset management revenues to the industry's bottom line, however, remains dwarfed by revenues from investment banking, proprietary trading and brokerage commissions.

Industry leader Merrill Lynch, for example, has made some of the biggest strides in asset management, yet earnings from the business still account for only 9 per cent of total net revenues (up from 7 per cent five years ago).

By contrast, proprietary trading profits account for 29 per cent of total revenues (up from 22 per cent in 1988), commissions for 26 per cent (up from 23 per cent), and investment banking for 17 per cent (unchanged from 1988).

The picture is much the same at other big securities houses. And, those firms which have mostly ignored asset management or other repeat revenue businesses, like Salomon Brothers and Morgan Stanley, remain particularly vulnerable to market-related downturns.

Witness Salomon's $173m loss on proprietary trading in this year's third quarter, a loss which dragged group profits down from $423m in the previous quarter to just $20m.

With the US economy recently showing signs of renewed life, the danger for Wall Street is that the Federal Reserve will raise interest rates next year to restrain future inflation.

Higher interest rates would quickly translate into lower trading and net income revenues, and weaker financial markets, which would result in lower investment banking and commission revenues. If that happened, there would be little Wall Street firms could do but grin and bear it.

US SECURITIES FIRMS EARNINGS($m)

	3rd qtr 1993	3rd Qtr 1992	Chg %
Alex Brown	15.228	11.126	+ 37
Bear Stearns	104.303	62.956	+ 66
Edwards (AG)	35.606	26.915	+ 32
Legg Mason	11.360	6.844	+ 66
Merrill Lynch & Co	353.687	226.689	+ 57
Morgan Stanley*	224.248	119.013	+ 88
PaineWebber Group	59.133	51.672	+ 14
Quick & Reilly	9.947	5.211	+ 91
Raymond (James) Fin'l	14.563	10.197	+ 43
Salomon Inc	20.000	6.000	+233
Schwab (Charles)	22.200	7.800	+185
Total	876.264	536.423	[illegible]

*Morgan Stanley reported income for its fiscal second quarter (May-July)

Rio Algom declines 28%

By Robert Gibbens

RIO ALGOM, the Canadian uranium, copper, coal and metals-distribution group, was hit by lower copper prices in the third quarter.

Net profit was C$11.6m (US$8m), or 25 cents a share, after a C$9.4m loss on the sale of its potash mining operation and a C$15m gain on the sale of portfolio investments.

The latest figure was down 28 per cent from C$16.2m, or 36 cents a share, a year earlier.

Revenues were C$237m, up 3 per cent.

Nine-month profit was C$22.7m, or 48 cents, down 22 per cent from C$29.2m, or 68 cents, on revenues of C$712m, up 7 per cent.

The international metals distribution business improved and a lower Canadian dollar also helped. Rio, 51 per cent controlled by RTZ until June 1992, will close its last remaining Ontario uranium mine in 1996 as contracts with Ontario Hydro utility run out.

US metals merger cleared

By Laurie Morse in Chicago

THE US Justice Department gave the all-clear on Monday for a merger, announced in May, between two US metals and mining giants, Colorado-based Cyprus Minerals and New York-based Amax.

The department cleared the sale of the two companies' molybdenite units. But to satisfy anti-trust concerns raised by the merger, the companies, along with others involved in the molybdenite business, were told they are subject to an ongoing investigation into violations of anti-trust laws.

Molybdenite is a metal used to produce heat-resistant alloys used primarily in the aerospace and defence industries. Cyprus and Amax produce the metal as a by-product of other mining operations and both process molybdenite. In the Justice Department decision, they agreed to sell operations in Idaho and Pennsylvania.

Amax said the decision makes way for a Friday shareholding vote on the merger, which will form the second largest copper producer in the US and give it a dominant presence in the US coal industry. Pending shareholder approval, Amax will distribute 40 per cent ownership in Amax Gold to shareholders, spin off its Alumax aluminium unit in a tax-free distribution, and combine its remaining assets with Cyprus Minerals.

Stone Container increases sale

By Robert Gibbens in Montreal

STONE CONTAINER, the Chicago-based international packaging group, will sell a larger than expected part of its newsprint business in its stock offer in Canada and Europe.

Stone has added convertible debentures to the offer to bring the amount raised to about C$450m from C$300m. On conversion of the debentures, the public would own 40 per cent of Stone Consolidated, against about 25 per cent before the changes to the prospectus.

The stock is being offered at C$13 to C$15 a share as part of a package of shares and debentures.

Stone originally planned a straight Stone Consolidated equity offer. The new company takes in the Canadian newsprint and groundwood paper mills and the Ellesmere Port newsprint mill, near Liverpool.

● PWA, parent of Canadian Airlines International, says all 139 senior creditors have accepted its restructuring plan, including a C$700m debt-equity swap. Junior creditors have already endorsed the plan.

However, it can only go through when American Airlines completes a promised C$246m equity infusion in return for 25 per cent ownership of Canadian Airlines. This, in turn, is held up over a dispute on a reservation system ownership between Canadian Airlines and Air Canada.

INTERNATIONAL CAPITAL MARKETS

Good news on inflation gives US Treasuries a boost

By Patrick Harverson in New York and Sara Webb in London

GOOD news on inflation provided US Treasuries with a much needed boost yesterday morning, lifting prices sharply at the long end of the market.

By midday the benchmark 30-year government bond was up 1¼ at 101$\frac{27}{32}$, yielding 6.114 per cent. At the short end of the market, the two-year note was $\frac{1}{32}$ higher at 99$\frac{31}{32}$, to yield 4.041 per cent.

GOVERNMENT BONDS

The October inflation data turned out to be a big, and pleasant, surprise for the beleaguered bond market. Analysts had been expecting the producer prices index to have risen about 0.3 per cent last month, but when the figures were released, the PPI showed a decline of 0.2 per cent.

Even better, core PPI, which excludes the volatile food and energy components, fell by 0.5 per cent. The numbers immediately raised hopes that today's consumer price index will also be bullish for bonds.

Prices surged at the long end as soon as the PPI came out, with the 30-year bond quickly gaining more than one point.

The buying, however, was not particularly widespread, with dealer short-covering contributing to the price gains. Analysts said trading was not as heavy as might have been expected because investors were cautious about getting involved in the market ahead of the afternoon auction of $17bn in three-year notes.

■ CONTINENTAL European government bond markets bounced back to life, mostly taking their cue from the US.

Italy was one of the top performers, with the futures contract gaining over a point. The Liffe BTP contract rose from 113.79 at Monday's close to trade at 114.90 by late afternoon. Dealers said domestic factors contributed to the rally and helped to lift a market which many felt had been oversold.

Traders were focusing on the 1994 budget, as some key clauses were due to be voted on by the Senate last night. Mr Jouni Kokko of S.G. Warburg Securities, said: "Many people had thought the 1994 budget would be delayed but now it looks as though things are going quite smoothly."

■ GERMAN government bonds gained half a point, pulled up by the US news and by the release of poor retail sales figures, which only confirmed the need for lower interest rates in the market's view.

Treuhand, the agency responsible for the privatisation of former east German enterprises, issued a new 6 per cent 10-year bond. Dealers noted switching out of existing 10-year Treuhand issues into the new bond as investors searched for longer duration and were wooed by the generous yield pick-up of about 14 basis points over Federal issues.

Western German retail sales fell 1.8 per cent in real terms during September compared with a year earlier. Mr Julian Callow, economist at Kleinwort Benson, said the news only highlighted the need for another cut in German interest rates by year-end.

Less favourable for the bund market was the news that new government borrowing may rise to over DM70bn next year. Mr Rudi Walther, the chairman of parliament's finance committee, was quoted as saying new government borrowing would be DM73bn-DM75bn, which dealers said was higher than previously expected.

■ UK gilts gained nearly a point at the long end on the back of positive inflation news. Initially, the gilt market appeared to be digesting the favourable producer price data released on Monday, while the release of the US PPI data helped to give the market an extra boost in the afternoon.

The 8¾ per cent 2017 gilt climbed from 116$\frac{7}{8}$ to 117$\frac{15}{32}$ while shorter-dated issues gained nearly a quarter point.

■ JAPANESE paper closed up on the day, having reached a new six-year high as the weakness in the Tokyo stock market and generally gloomy economic background boosted hopes of a further easing in short-term interest rates.

The benchmark No 145 issue opened with a yield of 3.445 per cent before moving to 3.415 per cent – corresponding to the high price of the day – and closed at 3.42 per cent.

FT FIXED INTEREST INDICES

	Nov 9	Nov 8	Nov 5	Nov 4	Nov 3	Year ago	High *	Low *
Govt.Secs (UK)	102.81	102.30	102.26	102.80	102.67	95.46	103.60	93.28
Fixed Interest	123.12	122.92	123.35	124.01	123.99	109.97	125.20	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 125.20 (1/8/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Nov 8	Nov 5	Nov 4	Nov 3	Nov 2
Gilt Edged Bargains	101.8	112.7	90.9	88.1	87.7
5-Day average	98.3	95.4	92.9	105.3	109.7

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	120.7809	+0.559	6.58	6.50	6.61
BELGIUM		9.000	03/03	113.5600	+0.350	6.98	7.10	7.30
CANADA *		7.500	12/03	105.2250	+0.675	6.77	6.87	6.77
DENMARK		8.000	05/03	110.9000	+0.370	6.43	6.43	6.51
FRANCE	BTAN	5.750	11/98	101.4405	+0.216	[illegible]	5.46	5.67
	OAT	6.750	10/03	105.1500	+0.620	6.04	6.05	6.01
GERMANY		6.000	09/03	101.0600	+0.445	5.85	5.86	5.95
ITALY		10.000	08/03	104.6700	[illegible]	9.46†	9.35	9.09
JAPAN	No 119	4.800	06/99	109.5164	+0.208	2.84	2.91	3.20
	No 157	4.500	06/03	107.2705	+0.153	3.49	3.56	3.82
NETHERLANDS		7.000	02/03	108.2600	+0.560	5.81	5.84	5.98
SPAIN		10.900	08/03	114.0000	-	8.69	8.52	8.87
UK GILTS		7.250	03/98	104-11	+6/32	6.10	6.20	6.25
		8.000	06/03	[illegible]	+19/32	6.83	6.87	6.84
		9.000	10/08	116-20	+26/32	7.17	7.21	7.18
US TREASURY *		5.750	08/03	101-11	+2/32	5.57	5.84	5.25
		6.250	08/23	101-28	+20/32	6.12	[illegible]	5.92
ECU (French Govt)		6.000	04/03	110.2700	+0.320	6.51	6.44	6.84

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Goldman takes commanding lead in bond league table

By Antonia Sharpe

GOLDMAN Sachs appeared to have safeguarded its position at the top of the Eurobond league table yesterday with the launch of $500m offerings for BAT Industries and Landesbank Rheinland-Pfalz and a £194.6m securitisation for Standard Chartered Bank.

According to IFR Securities Data, Goldman Sachs had lead-managed $36.6bn worth of Eurobonds by the end of trading yesterday, giving it a commanding lead of $3.4bn over Deutsche Bank, which occupied the number one slot at the end of last year.

Sales of BAT's and LB Rheinland-Pfalz's bonds were slow due to uncertainty about the direction of the US bond market. In addition, the rally in US Treasuries led to a considerable widening in the yield spreads on the Eurobonds.

The yield spread on BAT's bonds widened to around 79 basis points from 75 basis points at launch while the spread on LB Rheinland-Pfalz's bonds widened by seven basis points to 29 basis points.

Mr Paul Schminke, director for LB Rheinland-Pfalz's foreign and treasury activities, said the offering reflected the increasing internationalisation of the bank's assets.

INTERNATIONAL BONDS

"At present, we have to refinance these through the money market," he said. "The international markets give us better conditions than the money market, leading to a considerable improvement of the liability side of the balance sheet."

Elsewhere, British Columbia the highest rated Canadian province, extended the maturity profile of the Canadian dollar sector with the launch of $350m of 30-year Eurobonds.

This is the first 30-year Eurobond offering in Canadian dollars, although there have been 30-year Canadian dollar global bond offerings by Ontario Hydro and Hydro Quebec.

British Columbia's Eurobonds were priced to yield 48 basis points over underlying Canadian government bonds, somewhat below the current yield spread of 55 basis points on its 30-year domestic bond.

Lead manager ScotiaMcLeod said the pricing reflected the issuer's view that European investors would be willing to pay a premium for a long-dated and liquid issue and that the healthy oversubscription and a rise in the bonds to 97.70 when they were freed to trade, from a fixed re-offer price of 97.11, justified the pricing.

Late in the day, Pemex, the Mexican state-owned oil company, tapped the Canadian dollar sector for the first time with a C$100m offer of six-year Eurobonds. The yield spread of 195 basis points over Canadian government bonds was thought ambitious in view of the recent widening of spreads on emerging market bonds in the secondary market.

In the Eurosterling market, the securitisation of vehicle hire purchase receivables for Standard Chartered was largely pre-placed.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
BAT Capital Corp.	500	6.50	99.87R	Nov.2003	0.375R	+75(Wl 10yr)	CSFB/ Goldman Sachs
Landesbank Rheinland-Pfalz	500	5.25	99.775R	Dec.1998	0.25R	+22 (4¼%-98)	Goldman Sachs Intl.
Daiwa Industries(a)‡	50	1.125	100.00	Dec.1997	2.25	-	Daiwa Europe
D-MARKS							
CCCI	300	6.50	99.00R	Dec.2003	0.35R	+75 (6%-03)	Morgan Stanley
WGZ Bank Intl. Finance	100	5.75	101.00	Mar.1999	undisd.	-	WGZ Bank
STERLING							
CARS No. 3(b)‡	180	(b)	99.92R	Nov.1998	0.25R	-	Goldman Sachs Intl.
YEN							
Deutsche Bank Finance	20bn	3.00	100.25R	Dec.1998	0.25R	+28(4.8%-98)	Sanwa International
Penta-Ocean Construction(c)‡	20bn	1.25	103.00	Mar.1999	2.50	-	Yamaichi Intl.(Europe)
FRENCH FRANCS							
Depfa Finance	3bn	6.25	99.348R	Dec.2003	0.325R	+25 (8½%-03)	BNP/ SBS France
CANADIAN DOLLARS							
Province of British Columbia	350	7.875	97.11R	Nov.2023	0.50R	+48 (8%-23)	ScotiaMcLeod
Pemex	100	7.875	99.70R	Mar.1999	0.75R	+195(6¼%-98)	Deutsche Bank London
SWISS FRANCS							
Nichias Corp.(d)‡	150	0.50	100.00	Nov.1997	-		Credit Suisse
City of Vienna	100	4.00	102.25	Jan.1999	-		Credit Suisse

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ‡Private placement. §Convertible. ¶With equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Fixing: 15/11/93. b) Coupon pays 3-month Libor + 0.325%. Average life: 4.2 years. Simultaneous launching of £14.6m mezzanine notes. Top option of up to £200m in amounts of £20m until 23/11/95. c) Fixing: 16/11/93. Callable from 1/10/94, subject to 125% rule at 102¼% declining by ¼% semi-annually. d) Fixing: 18/11/93. Refixing clause effective Feb.1996. Callable on 28/11/95 at 101% declining by ½% annually.

Rautaruukki to raise FM320m with share issue

By Andrew Baxter

RAUTARUUKKI, Finland's largest steelmaker, is raising FM320m through a share issue that will strengthen its balance sheet and reduce the Finnish government's stake from 86.8 per cent to 81.1 per cent.

The offering is an important step in Finland's programme to widen ownership of state-owned companies, as it is the first time that the state has reduced its stake in a company by selling part of its rights in an issue.

The issue is also a dry run for further potential share sales at Rautaruukki. The Finnish government sent a bill to parliament last month which, if approved, would allow it to reduce its stake in the company to just over 50 per cent.

Rautaruukki, founded in 1960, has grown to become one of the two biggest flat steel product companies in Finland and Scandinavia, along with SSAB of Sweden. It also makes tubes and sections.

The company, which employs 9,000, was hit badly by the steel industry recession in 1991 and 1992, with total losses after financing items of more than FM1.5bn.

But Mr Mikko Kivimäki, chief executive, said the timing was right for the issue. Speaking in London, he said the company had made big improvements in productivity and delivery times, and its performance would improve considerably this year.

The issue also takes advantage of better stock market conditions in Finland and the boost to Rautaruukki's export competitiveness because of the markka's devaluation.

Finland will invest FM150m in the issue, but 5.8m of the 14.5m new shares will be sold to the public. Postipankki, the Finnish bank, is lead-managing the issue, and Merrill Lynch is co-lead manager responsible for organising the international placement. The third placement agent is Opstock of Finland.

There is no limit on the amount of shares which can be sold internationally. The issue is expected to be priced at FM22 a share, compared with a market price of FM22 for the shares already traded publicly.

Capital flow to developing countries breaks record

By Tracy Corrigan

A REVIVAL of private capital boosted net capital flows to developing countries to a record $165.5bn in 1992, 23 per cent higher than in 1991, according to the latest *Financial Market Trends* survey by the Organisation for Economic Co-operation and Development (OECD).

The 51 per cent growth in private capital was dominated by the expansion of international bank lending ($38bn), foreign direct investment ($29bn) and bond financing ($13.4bn).

Official development finance from other countries has been in decline, due to a sharp fall-off in aid from some donors (principally Arab countries and the former Soviet union).

Most of the increase in capital flow was concentrated on more advanced countries, while poorer and smaller countries, particularly those in sub-Saharan Africa, still rely on development finance.

Total external debt for developing countries in 1992 reached $1,534bn, up around 3 per cent.

The level of borrowing is increasing across all financial markets, according to the survey.

The OECD notes a 14 per cent rise to $326bn in borrowing facilities in the international financial markets for the year to October. As well as record bond issuance, there has also been a revival of syndicated lending.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 9

U.S. DOLLAR STRAIGHTS / DEUTSCHE MARK STRAIGHTS / SWISS FRANC STRAIGHTS / YEN STRAIGHTS / OTHER STRAIGHTS / FLOATING RATE NOTES / CONVERTIBLE BONDS

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	56	1	21
Other Fixed Interest	6	0	9
Commercial, Industrial	226	382	641
Financial & Property	139	199	459
Oil & Gas	16	11	50
Plantations	1	1	7
Mines	38	31	69
Others	43	48	48
Totals	527	643	1,534

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price	+or-	Net Div	Times Cov'd	Gross Yield	P/E Ratio
§146	F.P.	-	163	140	Abacus	160	+10	W3.3	2.0	2.7	22.1
[illegible]											

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+or-
280	Nil	9/12	46pm	37pm	Ashtead	45pm	
370	Nil	12/11	65pm	32pm	Bick	38pm	-7
65	Nil	23/11	13pm	5pm	¢Comac	5pm	
63	Nil	14/12	8pm	7pm	Elliott (B)	7pm	-1
35	Nil	13/12	1¾pm	1¼pm	Eng & Overseas Props	1½pm	
187	Nil	10/12	41pm	28pm	Frost	38pm	-1
375	Nil	6/12	140pm	175pm	Matthew Clark	139pm	
21	Nil	2/12	14pm	6pm	Safeland	6pm	
485	Nil	24/11	86pm	74pm	Siebe	79pm	-4
195	Nil	12/11	26½pm	7pm	Takare	7pm	-1
2½	Nil	10/12	¼pm	¼pm	Wentworth	¼pm	
15	Nil	27/11	3pm	3pm	Wescol	3pm	
375	Nil	25/11	47pm	40pm	Wilson Bowden	[illegible]	-3
215	Nil	8/12	45pm	31pm	Yule Catto	40pm	-2

pm Price at a premium. For other [illegible] please refer to the Guide to the London Share Service.

TRADITIONAL OPTIONS

- First Dealings Nov. 8
- Last Dealings Nov. 19
- Last Declarations Feb. 10
- For settlement Feb. 21

3-month call rate indications are shown in Saturday editions.

Calls: EFG, Eidos, Enterprise Comp., Goal Pet., Greycoat, INVESCO, LIT Pref., P&P, Proteus. Put: Aran Energy. Puts & Calls: Atreus, LIT (Ord.), Renison, Wellcome.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

[illegible]

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES / AVERAGE GROSS REDEMPTION YIELDS

		Tue Nov 9	Day's change %	Mon Nov 8	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (24)	[illegible]				
2	5-15 years (23)	[illegible]				
3	Over 15 years (8)	[illegible]				
4	Irredeemables (6)	[illegible]				
5	All stocks (61)	[illegible]				
	Index-Linked					
6	Up to 5 years (2)	[illegible]				
7	Over 5 years (11)	[illegible]				
8	All stocks (13)	[illegible]				
9	Debs & Loans (66)	[illegible]				

[illegible]

This information contained in this document which is dated 9 November, 1993 is in summary form and has been derived from, and should be read in conjunction with, the listing particulars dated 9 November, 1993 (the "Prospectus") relating to DFS Furniture Company plc (the "Company") prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986 (the "FSA"). [illegible] You should note that, in respect of the Placing and the Public Offer, J. Henry Schroder Wagg & Co. Limited is acting for DFS Furniture Company plc and [illegible] Words and expressions defined in the Prospectus have the same meanings when used in this document, unless the context requires otherwise. The application lists for the ordinary shares now being offered to the public will open at 10.00 am on 17 November, 1993 and may be closed at any time thereafter. [illegible] Application has been made to the London Stock Exchange for the whole of the ordinary share capital of the Company, issued and now being issued, to be admitted to the Official List. It is expected that admission to the Official List will become effective and that dealings in the ordinary shares will commence on Wednesday, 24 November, 1993.

D·F·S

Furniture Company plc

(Incorporated and registered in England and Wales under the Companies Acts 1948 to 1967; Registered No. 972107)

PLACING AND PUBLIC OFFER BY SCHRODERS

of 50,018,206 ordinary shares of 5p each at 260p per ordinary share payable in full on application of which 32,511,834 ordinary shares are being placed and 17,506,372 ordinary shares are being offered to the public

DFS

DFS is the United Kingdom's leading specialist retailer of upholstered furniture. DFS is a specialist retailer and manufacturer of upholstered furniture with out-of-town stores sited mainly in central and northern England. The Group opened its first upholstered furniture store in 1969, and now sells from 24 stores, 19 trading as DFS and five trading as Northern Upholstery. In addition, it sells dining room furniture from a further three stores trading as The Dining Centre.

DFS operates from a small head office in Doncaster and has two manufacturing facilities producing approximately 15 per cent. of the upholstered furniture sold by the Group.

KEY STRENGTHS

The success of DFS has been built on a strong management team, the Group's policy of specialising in upholstered furniture and on its attention to quality and detail in every aspect of its business, from product design through to after sales service. Each step is treated as important in its own right and integrated into a distinctive retailing process. This approach differentiates DFS from competitors and underpins the Group's success. Key features of the business include:

- Planned store network: The network is expanded by grouping stores within television advertising regions and according to predetermined customer drive-time criteria which minimise catchment area overlap.
- Sales and marketing skills: Products are displayed in attractive room settings within spacious modern stores and customer advertising of promotions throughout the year generates high levels of store traffic.
- Customer service: The Group places strong emphasis on the provision of high service levels to earn and protect customer goodwill, through well trained and knowledgeable staff.
- Product exclusivity and range: DFS offers a wide range of quality, value for money upholstered furniture, almost all of which is exclusive to the Group in design or fabric.
- Supplier relationships: DFS benefits from close collaborative relationships with its suppliers as a result of its own manufacturing expertise and its importance as a customer.
- Manufacture to order: All products are manufactured to order and the Group holds only a limited amount of stock.
- Profitability: Sales per square foot in 1993 in excess of £300, combined with an element of vertical integration, allows the Group to benefit from operating margins of over 15 per cent.
- Strong cash generation: DFS is strongly cash generative, with cash flow from operations of more than £70 million over the last five years, which has enabled it to finance its expansion programme from its operating activities.

PROSPECTS

The Directors believe that DFS will maintain its excellent record of growth based on its highly successful formula as a specialist retailer of upholstered furniture. In particular, significant growth opportunities exist through:

- Expansion of its upholstered furniture store network throughout the United Kingdom.
- Continued emphasis on marketing and promotional activities to maximise store sales.
- Maintaining and improving efficiency both in manufacturing and retail operations.

In addition, the Directors believe that the Group should benefit from increased activity in the United Kingdom housing market. The Directors intend to continue to pursue a policy of financing growth with cash generated from operations.

TRADING RECORD

Summary financial information on DFS for the five years ended 1 August, 1993 together with certain other trading information, is set out below:

	1989	1990	1991	1992	1993
Trading record					
Turnover (£m)	34.9	49.8	80.2	82.8	114.2
Operating profit (£m)	4.1	7.7	13.7	13.6	18.6
Profit before non-recurring items and taxation (£m)	4.7	8.6	14.7	14.9	20.8
Other trading information					
Number of stores at year end	16	19	23	23	26
Average turnover per sq. ft. (£)	175	204	271	254	326

The Group's turnover has increased by an average compound rate of 34.5 per cent. per annum since the year ended 30 July, 1989 and operating profits have increased by an average compound rate of 45.7 per cent. per annum over the same period. This growth has resulted from a combination of a store development programme which has seen 14 new stores opening during this period, increasing the Group's retail space by 211,224 sq. ft., plus additional sales from existing stores. Since 1 August, 1993, DFS has opened a new store in Darlington and this store is trading in line with expectations.

Group trading in the current financial year is in line with expectations, with orders ahead of the previous year on a like for like basis. Accordingly, the Directors believe that prospects for the current year are encouraging and that operating margins should be maintained at around the level achieved in the year ended 1 August, 1993.

DIVIDENDS

The ordinary shares which are the subject of the Offer rank in full for all dividends or other distributions declared, made or paid in respect of the ordinary share capital of the Company after Listing. If the Company's ordinary shares had been listed on the London Stock Exchange for the whole of the year ended 1 August, 1993 with the capital structure of the Company which will be in place on Listing, the Directors would have recommended a dividend of 6.4p per ordinary share (8.0p per ordinary share inclusive of the associated 20 per cent. tax credit) in respect of that year. This would represent a notional gross dividend yield of 3.0 per cent. at the Offer Price and would have been covered 2.1 times by pro forma earnings for the year ended 1 August, 1993.

The Directors intend that an interim dividend will be paid in June and a final dividend in December of each year, in the approximate proportions of one-third and two-thirds respectively of the total annual dividend. The Directors intend that the first interim dividend will be payable in June, 1994 on the basis that the Company was listed throughout the six month period to which the interim dividend will relate.

OFFER STATISTICS

Offer Price	260p
Number of ordinary shares in issue following the Offer	104,255,123
Market capitalisation at the Offer Price	£271.1 million
Percentage of issued share capital now being offered	48.0 per cent.
Earnings before non-recurring items per ordinary share for the year ended 1 August, 1993	13.2p
Earnings after non-recurring items per ordinary share for the year ended 1 August, 1993	4.6p
Price earnings multiple before non-recurring items at the Offer Price for the year ended 1 August, 1993	19.7 times
Notional net dividend per ordinary share for the year ended 1 August, 1993	6.4p
Notional gross dividend yield at the Offer Price for the year ended 1 August, 1993	3.0 per cent.
Notional dividend cover for the year ended 1 August, 1993	2.1 times
Pro forma consolidated net assets per ordinary share at 1 August, 1993	14.2p

The basis of calculation of these offer statistics is set out in the Prospectus.

EXPECTED TIMETABLE

Last time for receipt of completed Application Forms in respect of the Public Offer	10.00 a.m. on Wednesday, 17 November, 1993
Basis of allocation announced	Thursday, 18 November, 1993
Despatch of renounceable letters of allocation	Tuesday, 23 November, 1993
Dealings expected to commence	Wednesday, 24 November, 1993
Last time for splitting	3.00 p.m. Wednesday, 29 December, 1993
Last time for registration of renunciation	3.00 p.m. Friday, 31 December, 1993
Despatch of definitive share certificates	Friday, 14 January, 1994

GUIDE TO THE APPLICATION FORM

The following instructions should be read in conjunction with the Application Form.

1 Insert in Box 1 (in figures) the number of ordinary shares for which you are applying. Applications must be for a minimum of 200 ordinary shares and in one of the following multiples:
- for more than 200 shares, but not more than 500 shares, in a multiple of 100 shares;
- for more than 500 shares, but not more than 2,000 shares, in a multiple of 250 shares;
- for more than 2,000 shares, but not more than 10,000 shares, in a multiple of 1,000 shares;
- for more than 10,000 shares, but not more than 50,000 shares, in a multiple of 5,000 shares; and
- for more than 50,000 shares, in a multiple of 10,000 shares.

An Application Form for any other number of shares may be rejected.

2 Insert in Box 2 (in figures) the amount of your payment. The amount of your cheque or banker's draft should be the Offer Price of 260p multiplied by the number of ordinary shares inserted in Box 1. For example:

Number of ordinary shares applied for	Amount you must pay
200	£520
300	£780
400	£1,040
500	£1,300

Number of ordinary shares applied for	Amount you must pay
750	£1,950
1,000	£2,600
1,500	£3,900
2,000	£5,200

3 Sign and date the Application Form in Box 3. The Application Form may be signed by someone else on your behalf (and/or on behalf of any joint applicant(s)) if duly authorised by power of attorney to do so, but the power of attorney pursuant to which this is done (or a copy certified by a solicitor) must be enclosed for inspection. A corporation should sign under the hand of a duly authorised officer whose representative capacity must be stated.

4 Insert your full name and address in BLOCK CAPITALS in Box 4. Applications may only be made by persons aged 18 or over. However, a parent, grandparent or guardian of a person under 18 may apply for the benefit of that minor. To apply for the benefit of a minor, you should put your own name in full in Box 4 and complete the minor's details box, within Box 4, with the full name of the minor and the minor's date of birth. You are not thereby precluded from making a single application for your own benefit. See notes 6 and 7 for joint applications.

5 You must pin to the completed Application Form a single cheque or banker's draft for the full amount payable. Your cheque or banker's draft must be payable to "National Westminster Bank Plc A/C DFS Offer" for the amount payable on application inserted in Box 2 and should be crossed "A/C Payee". No receipt will be issued for this payment which must be solely for this application.

Cheques or banker's drafts must be drawn in sterling on an account at a branch of a bank in the United Kingdom which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS and Town Clearing Company Limited or a member of either of the committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by either of those companies or those committees.

Applications may be accompanied by a cheque or a banker's draft drawn by someone other than the applicant(s), but any moneys to be returned will be sent by crossed cheque in favour of the person named in Box 4.

If you are also applying on the Pink or Green Application Form, you must pin a separate cheque or banker's draft to each completed Application Form.

6 You may apply jointly with up to three other persons. If you do so, you must then arrange for the Application Form to be completed by or on behalf of each joint applicant (up to a maximum of three other persons, in addition to the first applicant). Their full names and addresses should be put in BLOCK CAPITALS in Box 6. Letters of allocation in the names of joint applicants will be sent to the applicant named in Box 4.

IMPORTANT: If you make a joint application, you will not be able to transfer the shares into a PEP. If you are interested in transferring your shares into a PEP, you should apply in your name only.

7 Box 7 must be signed by or on behalf of each joint applicant (other than the first applicant who should sign in Box 3 and complete Box 4). If any individual is signing on behalf of any joint applicant(s) the power(s) of attorney (or a copy (copies) certified by a solicitor) must be enclosed for inspection.

8 If you are unable to warrant in the terms of any of points (i), (ii) or (iii) set out below Box 7, you must delete the relevant warranty and give such further information as is requested.

TERMS AND CONDITIONS OF APPLICATION

[illegible]

(m) agree that all applications, acceptances of applications and contracts resulting from them under the Public Offer shall be governed by, and construed in accordance with, English law and that you submit to the jurisdiction of the English courts [illegible]

(n) if the laws of any place outside the United Kingdom are applicable to your application, warrant that you have complied with all such laws and none of the Company, Schroders, the vendor shareholders or any of their respective directors, officers, employees or agents will infringe any laws outside the United Kingdom as a result of their acceptance of your application.

(o) warrant that, if you sign an Application Form on behalf of somebody else or a corporation, you have the authority to do so [illegible]

BASIS OF ACCEPTANCE AND DEALING ARRANGEMENTS

[illegible]

STAMP DUTY AND STAMP DUTY RESERVE TAX

Attention is drawn to the statements on page 64 of the Prospectus regarding stamp duty and stamp duty reserve tax.

AVAILABILITY OF PROSPECTUS AND APPLICATION FORM

Copies of the Prospectus and Application Form may be obtained until 15 November, 1993 by telephoning 0645 100 645.
Copies of the Prospectus and Application Form may be obtained until 25 November from:

J. Henry Schroder Wagg & Co. Limited
120 Cheapside London EC2V 6DS

NatWest Wood Mackenzie & Co. Limited
135 Bishopsgate London EC2M 3XT

DFS Furniture Company plc Bentley Moor Lane
Adwick-Le-Street Doncaster South Yorkshire DN6 7BD

National Westminster Bank Plc Registrar's Department
New Issues Section 15 Featherstone Street London EC1Y 8QS

and from the following branches of National Westminster Bank Plc:

BIRMINGHAM Colmore Centre 103 Colmore Row BRISTOL 32 Corn Street CARDIFF 117 St. Mary Street DONCASTER 12 High Street
EDINBURGH 80 George Street EXETER 59 High Street GLASGOW 14 Blythswood Square HULL 19 Silver Street LEEDS 8 Park Row
MANCHESTER 55 King Street NEWCASTLE UPON TYNE 87 Grey Street NORWICH 45 London Street NOTTINGHAM 3 Thurland Street
or from Ulster Bank Limited: BELFAST Personal Investment Unit 88/90 High Street

DELIVERY OF APPLICATION FORM

You must send the completed Application Form together with the cheque or banker's draft by post to National Westminster Bank Plc, Registrar's Department, New Issues Section, PO Box 859, Hartcliffe, Bristol BS99 1XZ, or deliver it by hand only to National Westminster Bank Plc, Registrar's Department, New Issues Section, 15 Featherstone Street, London EC1, so as to be received not later than 10.00 a.m. on 17 November, 1993.

If you post your Application Form, you are recommended to use first class post and allow at least two working days for delivery. Photostat copies of Application Forms will not be accepted. Multiple or suspected multiple applications may be rejected in their entirety.

D·F·S

Furniture Company plc

PUBLIC OFFER APPLICATION FORM

Offer by Schroders of 50,018,206 ordinary shares of 5p each in DFS Furniture Company plc ("ordinary shares") at 260p per share, payable in full on application

Before making any application to acquire shares you are recommended to consult an independent financial adviser authorised under the Financial Services Act 1986.

FOR OFFICIAL USE ONLY
1. Form No.
2. Acceptance No
3. Shares Allotted
4. Amount received £
5 Amount payable £
6 Amount returned £
7 Cheque No.
8. Splits Registration

1 I/We offer to acquire ______ ordinary shares

(or any smaller number of shares for which this application is accepted) at the Offer Price of 260p per share payable in full on application on the terms and conditions set out in this Application Form and the Prospectus dated 9 November, 1993 and subject to the memorandum and articles of association of DFS Furniture Company plc.

2 and I/we attach a cheque or banker's draft made payable to "National Westminster Bank Plc A/C DFS Offer" for the amount set out opposite. £ ______

(260p multiplied by the number of ordinary shares inserted in Box 1)

3 Dated ______ November, 1993 Signature ______

4 PLEASE USE BLOCK CAPITALS

Forename(s) (in full) ______
Mr., Mrs., Ms., Miss or title
Surname ______

Minor's forename(s) (in full) ______
Surname ______ Date of birth ______

Address (in full) ______
Postcode ______

5 Pin here your cheque or banker's draft made payable to "National Westminster Bank Plc A/C DFS Offer" and crossed "A/C Payee" for the amount in Box 2

Fill in Boxes 6 and 7 only when there is more than one applicant. The first or sole applicant should sign in Box 3 and complete Box 4. Insert in Box 6 the names and addresses of the second and subsequent applicants, each of whose signature is required in Box 7.

N.B. If you make a joint application, you will not be able to transfer the shares into a PEP.

6 PLEASE USE BLOCK CAPITALS

Forename(s) in full Mr., Mrs., Ms., Miss or title Surname Address (in full) Postcode	Forename(s) in full Mr., Mrs., Ms., Miss or title Surname Address (in full) Postcode	Forename(s) in full Mr., Mrs., Ms., Miss or title Surname Address (in full) Postcode

7

Signature	Signature	Signature

Except to the extent that you delete any of the following, you warrant that:

(i) You are not applying as, or as (a) nominee(s) or agent(s) for, (a) person(s) who is/are or may be persons mentioned in sections 67, 70, 93 or 96 of the Finance Act 1986 (depositary receipts and clearance services).

(ii) You are not applying as, or as (a) nominee(s) or agent(s) for, (a) person(s) who is/are (a) market maker(s) in the shares of DFS Furniture Company plc within the meaning of section 81 of the Finance Act 1986. If this warranty is deleted, please state the date on which application for registration as a market maker in respect of the shares was made to the London Stock Exchange.

(iii) You are not applying for registration as, or as (a) nominee(s) or trustee(s) for, a body of persons established for charitable purposes only. If this warranty is deleted, please state name of charity and registered number (where applicable).

Applications must be received by 10.00 a.m. on 17 November, 1993. The completed Application Form together with a cheque or banker's draft for the amount payable should be posted to National Westminster Bank Plc, Registrar's Department, New Issues Section, PO Box 859, Hartcliffe, Bristol BS99 1XZ, or delivered by hand only to National Westminster Bank Plc, Registrar's Department, New Issues Section, 15 Featherstone Street, London EC1. Any person signing this Application Form under a power of attorney must enclose the original power of attorney (or a copy certified by a solicitor) for inspection.

FT/10/11/93

Sales increase sharply, boosted by 8% price increase in April

Anglian Water flat at £100.5m

By Peggy Hollinger

ANGLIAN WATER, one of the largest privatised water companies, was yesterday quietly optimistic about its full-year outlook in spite of reporting virtually flat pre-tax profits of £100.5m for the six months to September 30.

Mr Chris Mellor, finance director, said the group was confident it "might show some improvement on the full year". Analysts pencilled in forecasts of £190m for the year to March 31, against £185.4m last year. The shares closed 3p down at 491p.

Mr Mellor also indicated that Anglian intended to launch a concerted lobbying effort following last week's consultation document on pricing regulations in the water industry. Mr Ian Byatt, the industry regulator, has indicated he wants to cut the rate of return enjoyed by water companies from 7 per cent to about 5 per cent.

"It is something we don't see adding up," Mr Mellor said. Anglian, was committed to spending some £2bn between 1995 and 2000, including installing compulsory metering in more than 1.3m homes.

Such investment levels would require "a rate of return which enables us to finance the business on a sustainable basis," Mr Mellor said.

Anglian's profits were achieved on a sharp rise in sales from £286.3m to £341.4m. The increase was partly due to an 8 per cent price rise in April, which accounted for £22m of sales, and also to the inclusion for a full six months of Nordic Water.

Nordic Water, which was purchased in February for £38m and broke even in the first half, offers design contracting and equipment supply services to water companies in Europe and North America. Mr Mellor said Anglian expected Nordic to return a profit in the second half, and cover its interest costs for the full year.

In the core water business, Anglian showed a £2.7m increase in operating profit to £118.7m. The advance was held back by a 7.5 per cent decline in measured income, or sales to industrial customers. "Companies under cost pressure are generally looking to cut back on water consumption," Mr Mellor said.

The start-up costs of Anglian Water International resulted in a £2.2m loss, leaving an operating profit for the group of £116.5m (£114m).

A 49 per cent increase in debt to £423.8m reflected the rise in capital expenditure from £147.2m to £178.9m. Investment was budgeted at £390m for the full year. Gearing was 23 per cent.

The dividend was raised by 7.4 per cent to 7.3p, while earnings rose from 31.7p to 33.2p.

Nu-Swift makes progress on privatisation

By David Blackwell

NU-SWIFT, the fire protection and property group which is being taken private, reported pre-tax profits up from £2.6m to £4.3m for the first half of 1993.

The company said yesterday that "significant progress" had been made towards the privatisation. The Yorkshire-based group, quoted on the USM, is 66 per cent owned by its chairman, Mr Jacques Murray, through European Fire Protection. Mr Michael Ashcroft's ADT holds 22.3 per cent.

Group turnover fell from £154.6m to £153.1m. Turnover from discontinued operations accounted for £132.3m, reflecting the contribution from the US office cleaning and maintenance division which was sold in June.

Turnover from continuing operations rose from £18.3m to £19.7m.

The group said that its fire protection business had "continued to make a considerable contribution to profits", with a new production unit in Yorkshire helping to cut costs. The division contributed £2.7m to operating profits, down from £2.8m last time.

Operating profits from the property investment division rose from £5.5m to £6.3m. The group said that while no independent valuation of its investment property portfolio had been made since December 31 last year, the board was confident it had more than maintained its value.

It continued to yield gross rental income of more than 10 per cent.

Earnings per share were 7.62p (5.69p). No interim dividend will be paid. However, the group said that if the privatisation talks were terminated, with no subsequent offer to shareholders, the board "will recommend a special interim dividend for 1993."

Leeds Permanent 22% up despite rising bad debts

By Alison Smith

LEEDS PERMANENT, the UK's fifth largest building society, yesterday reported a 22 per cent rise in pre-tax profits to £186.2m for the year to September 30 in spite of increased provisions for bad debt.

The provisions, which rose from £105.2m to £131.1m, reflected a fall in property values of about 5 per cent in the last quarter of 1992 which increased losses on properties held in possession.

However, provisions in the second half of the year were down by 44 per cent compared with the first half.

There was also a deduction of £50.9m from net interest received to reflect irrecoverable interest on properties in possession and arrears. But a sharp increase in net interest received – from £342.1m to £428m – contributed significantly to the society's improved profitability.

Mr Roger Boyes, finance director, said the increase was largely because of the society's active Treasury operation, as well as the opportunity for widening margins as interest rates fell in the aftermath of sterling's departure from the European exchange rate mechanism last autumn.

He said a 14 per cent increase in management expenses to £220.4m reflected in part the depreciation of earlier investment in information technology.

Mr Boyes confirmed that the Leeds was still looking for other opportunities after its plans for a merger with National & Provincial, the UK's eighth largest society, were called off at the eleventh hour last month because of cultural differences.

The society has also resumed its search for a new chief executive, but it is now unlikely that anyone will be in place before the end of the year.

Mr John Wriglesworth, building societies analyst at UBS, said the results both set the trend for the building society sector in improved profitability and capital strength, and confirmed Leeds' "viability as an independent financial institution" even though it had lost out on the added benefits of the proposed merger.

The results were typical for the sector only because in covering the last quarter of 1992, they included provisions for bad debts which would have been included in other societies' results for 1992-93.

Multitone agrees to bid from Champion

By Paul Taylor

CHAMPION Technology, the Hong Kong-based telepaging group, yesterday made a recommended 143p-a-share cash offer for Multitone Electronics which values the UK-based paging equipment pioneer at just over £21.5m.

Champion said it had received irrevocable undertakings in respect of 62.4 per cent of Multitone's issued equity. Multitone's shares closed 8p higher at 139p.

The deal, once completed, will provide the fast-growing Champion group, which was listed in Hong Kong in August last year, with additional manufacturing capacity, and access to the European market for paging equipment.

Champion, which has a market capitalisation of HK$802.4m (£70.1m), yesterday reported pre-tax profits of HK$148.8m on turnover of HK$298.6m in the year to June 30. The group has recorded compound growth in turnover of 132.3 per cent over the last three years – mainly fuelled by the market in China but has acknowledged that the supply of adequate numbers of high quality products is the main limiting factor affecting it's future growth.

Multitone, which has operations in the UK, continental Europe and Malaysia and distributes its products mainly in Europe, developed the first radio pager in 1955 and was one of the pioneers of pager systems.

In the year to April 30 the group reported pre-tax profits of £1.6m (£1.9m) on turnover of £24.6m (£23.2m).

Last month it issued a warning saying that it expected to report a small pre-tax loss in the first half and only a small pre-tax profit for the year.

Norwegian tanker group for market valued at £212m

By Charles Batchelor, Transport Correspondent

BONA Shipholding, a company set up to run the tanker interests of Norwegian shipping group Leif Hoegh, plans a stock market listing which will raise $120m of new capital and value the company at about $320m (£212m).

Bona, a Bermuda-registered company which was set up last year, already has interests in 12 oil-bulk-ore vessels, tankers and product carriers and has placed orders and options for a further three tankers.

It plans to issue between 11m and 15m new shares at about $10-$12 a share in a move which would reduce Leif Hoegh's stake from 76 per cent to about 42 per cent.

A pathfinder prospectus is to be issued at the end of November with pricing likely to follow in the second week of December.

The Bona issue will be the sixth share offering to be announced by a shipping company in the past six months and signals a reawakening of investor interest in the sector, said Mr David Freud, a director of SG Warburg, which is handling the listing and share offer.

Warburg will offer 85 per cent of the new shares to international investors while the remainder will be offered in Norway by Den norske Bank. The shares will be listed on the Oslo stock exchange and also traded in London and in the US to qualified institutions under Rule 144A.

More than half of the world's tanker fleet is more than 15 years old and tougher safety standards could lead to many more vessels being scrapped over the next few years.

By separating its tanker interests from its other activities Leif Hoegh will avoid distorting its balance sheet and will distance itself from the risks inherent in far tougher environmental legislation introduced in the US in the wake of the Exxon Valdez oil spill.

Bona's chairman is Mr Rudolph Agnew, who is also chairman of TVS and a former chairman of Consolidated Gold Fields. Mr John Smadal, a former president of Leif Hoegh, is chief executive.

Rudolph Agnew: listings in London, Oslo and the US

Macmillan's fate known today when final bids are opened

By Raymond Snoddy

THE FATE of Macmillan, the US publisher bought by the late Mr Robert Maxwell, should be known today after the final bids for the company are opened.

Price Waterhouse, administrators to the Maxwell Communications Corporation, are responsible for selling the business, which includes a 50 per cent stake in the Macmillan/McGraw-Hill School Publishing joint venture.

Four companies were invited to submit final sealed bids by 5pm New York time yesterday.

The four are Harcourt Brace Jovanovich the US publishers, K-III the US magazine publisher, Paramount Communications and Pearson, owner of the Financial Times.

Price Waterhouse said last night there would be no further round of bidding and that the highest bid submitted would now win.

The sale is likely to be the largest of the US disposals of the former Maxwell empire and is likely to produce well in excess of $500m (£331m).

Pearson, the only non-US bidder, is particularly interested in the college and school textbook business of Macmillan.

Savoy appointment postponed

By Michael Skapinker, Leisure Industries Correspondent

FORTE and Savoy yesterday postponed a decision on who should take over the chairmanship of the Savoy group when Sir Anthony Tuke retires in May next year.

The Savoy board, which met yesterday, is believed to have discussed the issue briefly, but without reaching any conclusion.

Forte is thought to be opposed to either Mr Giles Shepard, Savoy's managing director, or Mr John Kemp-Welch, joint senior partner at Cazenove, becoming chairman. Forte is believed to favour Sir Michael Richardson, chairman of Smith New Court.

Both sides would like to see Mr Willi Bauer, a former Savoy general manager, becoming chief executive of the group.

Forte owns a majority of Savoy shares and a minority of the voting shares.

Neither party would comment on the meeting.

Resignations at Spring Ram

By Andrew Bolger

Spring Ram, the kitchens and bathrooms group, said yesterday it had received resignations from Mr Ron Farr, chief executive of the group's special products division, and Mr David Riley, chief executive of the bathrooms division.

Mr Roger Regan, who was installed as chairman of Spring Ram by disgruntled shareholders in July, requested the resignations in September when he announced a change in accounting policy which resulted in heavy losses and substantial gearing.

Yesterday's announcement marks the conclusion of legal negotiations on the terms.

Profits warning clips 61p off FII shares

SHARES in FII plunged 61p to 280p yesterday as the shoe manufacturer and scientific instrument supplier issued a profits warning just one day before its annual general meeting.

FII said yesterday that it expected a £1m loss in its science and technical division, following the unexpected cancellation of a contract and the separate recall of one of its major products. The result would be a substantial reduction in profits compared with last year's £3.48m. Analysts had been expecting full year profits of about £5.3m.

The future strategy relating to the science and technical division was now under consideration.

However, the company sought to reassure investors with an optimistic statement over trading in its other divisions and in the second half. As a result, its dividend policy would remain unchanged, FII said.

As one of the main suppliers of shoes to Marks and Spencer, FII has been unable to pass on the sharp increases in raw materials costs following the devaluation of sterling. The increase in costs was partly to blame for a 19 per cent tumble in annual profits to £5.2m.

Roxboro shares show modest rise on first day

SHARES IN Roxboro, the Newmarket-based manufacturer of specialist electronic components, rose to a modest premium on their first day of trading yesterday.

The shares, which were priced at 230p last week in the placing and offer for sale which was 12.9 times subscribed, closed at 250p with about 71.3m transactions recorded.

Under the placing 14.1m shares were placed firm with institutional and other investors by Samuel Montagu and a further 7.61m shares were offered for sale to the public.

Roxboro has forecast sharply higher trading and pre-tax profits for the current year. Trading profits after central costs, but before exceptional costs of £600,000, are forecast to more than double to £6.8m in the year to December 31, compared with £3.1m last year.

Earnings are expected to total 11.6p this year (or 13.3p before exceptional items). The notional dividend for the current year is forecast at 1.9p.

NMC jumps 52% as US carton side expands

NMC, the London-based packaging group, yesterday reported a 52 per cent jump in pre-tax profits to £4.34m for the half year to end-September.

The advance reflected a continuing strong performance from UFC, the core US folding carton operation, together with a return to profit by the UK activity.

Basic earnings per share rose from 2.01p to 4.44p and the interim dividend is being lifted from 0.5p to 1.25p. The directors looked forward to "continued growth in earnings" in the second half.

Turnover totalled £64.86m (£62.12m) of which the US operation contributed £57.7m (£42.98m). The UK figure fell to £7.18m (£9.14m), although £2.6m of the 1992 figure stemmed from a now discontinued operation.

Interest charges increased from £738,000 to £1.23m and tax from £771,000 to £1.26m.

The US operation benefited from a stronger dollar while the UK side was expected to continue profitable trading.

The shares put on 4p to 120p.

NEWS DIGEST

J Dickie jumps to £678,000

SHARES in James Dickie rose 16p to 81p yesterday as the USM-quoted manufacturer of engineering components announced a jump in pre-tax profits from £206,000 to £678,000 for the year to August 31. The figure last time has been restated in accordance with FRS 3.

Turnover advanced to £16.6m against £15.4m.

Mr Joseph Grimmond, chairman, said the result was achieved despite the group's inability to obtain any general price increase and that in real terms prices to customers had fallen since 1991.

However, profit margins had increased, he said, which was a measure of the effort to seek better production methods and control overheads.

A single final of 2p (1p) is recommended from earnings of 8.4p (2.5p) per share.

New dealership for Dixon Motors

Dixon Motors, the USM-traded motor retailer, has acquired from the receiver of the Stormont Group its Citroen dealership at Birstall, near Dewsbury, for a cash consideration of £875,000 plus £177,000 for the value of trading assets.

At the same time Dixon said it was raising £749,500 before expenses via a placing with institutional investors of 563,540 new ordinary shares at 133p a share. The shares were placed by Allied Provincial Securities.

The directors said the new dealership "should achieve sales in 1994 of some 300 new and some 300 used cars" which would result in a contribution to group operating profits of "at least £150,000."

Budgens £30m loan stock offer accepted

Budgens, the UK food chain, has received acceptances in respect of £9.87m – 32.9 per cent – of the loan stock in its £30m open offer. This includes £8.8m subscribed by Rewe, the private company which is one of Germany's largest food retailers.

In accordance with the terms of the open offer and the subscription, the balance of £20.1m of the stock will be subscribed by Rewe.

Rewe is acting through Budgens in its plan to open a chain of discount food stores in south-east England.

Hartlepools Water rises to £720,000

Pre-tax profits of Hartlepools Water showed a 7 per cent improvement from £670,000 to £720,000 for the six months to September 30. Turnover grew by £150,000 to £2.76m.

An improved interim dividend of 23p (22p) is declared, payable from earnings per share of 71p (67p).

Pittencrieff boosts Canadian interests

Pittencrieff, the oil and gas concern, has agreed to acquire for C$6.75m (£3.32m) an additional 24.8 per cent working interest in the Patricia Gas Field in Alberta, Canada. This is together with a 100 per cent working interest in 5 wells and over 3,500 acres of development lands adjoining the Patricia unit.

Barclays to sell US factoring operation

Barclays Bank, the UK clearing bank, is to sell Barclays Commercial Corporation, its US factoring operation, to The CIT Group Holdings for an undisclosed sum. Completion is expected in early 1994.

BCC's net assets at December 31 1992 were $48.2m (£31.9m).

H&C plans disposals in Australia and NZ

Harrisons & Crosfield intends to dispose of a substantial part of its Australian and New Zealand operations within the next six months.

It is expected that a public flotation will be the preferred method of disposal, but H&C is also considering the option of a trade sale.

Rentokil in £5m expansion

Rentokil, the environmental and property services company, has expanded in both Spain and the US via acquisitions totalling £5m.

In Spain, it has acquired Corporation Internacional Ratin together with Compania Internacional de Desinsectacion y Antiplagas, two related pest control companies based in Barcelona. The cash consideration totalled Pta740m (£3.7m).

The US acquisition was of Exotic Plant Rentals of Elgin, Illinois. The price paid was $1.7m in cash.

Bennett & Fountain EGM requisition

The board of Bennett & Fountain Group, the wholesaler and retailer of electrical goods which is being acquired by Marlowe Holdings in a recommended £2.1m offer, has received a formal requisition for an extraordinary general meeting.

The requisition comes from shareholders representing, in aggregate, 10 per cent or more of B&F's ordinary share capital.

The requisition contained resolutions proposing, among other things, the appointment of further directors to the B&F board.

Elswick sells Bomford for £7.7m

Elswick is selling Bomford Turner, its grass-cutting machinery subsidiary, to the Texas-based Alamo Group for about £7.7m, to allow it to concentrate on its core print and packaging business.

The proceeds – which will be realised as £5.2m in cash and the balance as interest-bearing loan notes – will eliminate debt and leave the group with pro forma net cash of £1.3m.

Greycoat refinancing

Greycoat, the property company that agreed to a rescue refinancing last week, said yesterday it had received support for the proposal from one class of bondholders.

The company said the co-ordinating committee of Britannic House bondholders, representing more than 75 per cent of the class, was broadly supportive of the restructuring proposals put forward by the UK Active Value Fund.

Greycoat also needs the support of the preference and ordinary shareholders if it is to avoid risking being put into default on a second class of bonds – the zero coupon bonds.

Thorn EMI calls for inquiry

Thorn EMI has asked Mr Warren Rudman, the former US Senator, to conduct an inquiry into procedures at Rent-A-Center, its American rental subsidiary.

A Wall Street Journal article last September alleged that Rent-A-Center used unorthodox methods to deal with customers who had fallen behind on rental payments.

Bermuda Fire & Marine Insurance

The Department of Trade and Industry is examining the circumstances surrounding the collapse of a leading Bermuda-based insurance company, Bermuda Fire & Marine Insurance.

Bermuda Fire & Marine filed for a winding up petition on the island last week. DTI concern is understood to focus on the company's London branch which operated until the mid-1980s.

Mr Gareth Hughes, a partner of Ernst & Young, London, and Mr Tony Joaquin, a partner in Ernst & Young, Bermuda, were appointed provisional liquidators of the Bermuda company last week.

Correction

Automagic Hldgs

Shares in Automagic Holdings rose 14p to 27p on Monday November 8, and not 2p to 15p as reported.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Anglian Water	int	7.3	Apr 6	6.8	-	21.1
Dickie (James)§	fin	2	Dec 21	1	2	1
Great Portland	int	2.7†	Jan 6	3.4	-	10
Hartlepools Wtr	int	23	Jan 1	22	-	55
MAM	int	4	Dec 17	3	-	15
NMC	int	1.25†	Jan 28	0.5	-	2
Norcros	int	3.5†	Feb 14	3.5	-	7
Warburg SG	int	6	Dec 17	5.25	-	19

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

COMPANY NEWS: UK

Chairman and his family will raise £129m from sale of 47.7% stake

DFS given £271m valuation

By Maggie Urry

MR GRAHAM KIRKHAM, executive chairman of DFS Furniture, and his family yesterday raised £129m when their sale of 47.7 per cent of the shares in the specialist upholstery retail chain was underwritten at 260p a share.

The remaining 51.7 per cent stake he and his family will have after flotation is worth £140m at the issue price, and the whole company is valued at £271.1m.

Mr Kirkham will not sell any further shares for a year. He will have a three-year fixed-term contract with a remuneration package worth about £300,000.

He said the length of his contract and his continuing substantial investment in the shares showed his commitment to the company.

The issue price gives an historic p/e for the year to August 1 of 15.7, on earnings per share of 13.2p, before non-recurring costs.

Profits included a £888,000 gain on the sale of land, and excluding that the p/e would have been about 20%.

DFS said that had it been quoted, it would have paid a dividend for the year of 6.4p, giving a notional yield of 3.1 per cent, covered 2.1 times.

The rating is at a slight premium to the stores sector, J Henry Schroder Wagg, sponsor to the issue, said the pricing reflected investor demand.

Profits before tax and non-recurring items have risen from £4.7m in 1989 to £20.8m in 1993.


Ashley Ashwood

Graham Kirkham, who has a three-year contract, will not sell any further shares for a year

DFS said it expected to maintain its growth rate, and said current trading was in line with expectations.

Operating margins should be maintained at last year's 18.3 per cent.

The group, which has 24 upholstery stores and three shops selling dining furniture, has funded its expansion entirely through cash flow and plans to continue that policy. It has £18m of cash.

The flotation comprises a placing of 32.5m shares and a public offer of 17.5m shares.

Applications close on November 17 with the basis of allocation expected the following day. Dealings are due to start on November 24.

NatWest Wood Mackenzie is broker to the issue.

● COMMENT

It is rare in the stores sector, or even in the stock market, to find a company with apparently assured and rapid growth, and no financing problems. The only question is whether it is too much of a one-man band. But Mr Kirkham is still young, and seems as committed as ever to running the business. The DFS issue should be a success. Analysts are looking for the p/e to come down to under 18 in the current year which looks attractive.

Emerald Energy heads for USM

By Robert Corzine

EMERALD Energy is to be introduced to the USM next week in a £1.7m share placing which will follow a reverse takeover engineered by Mr Peter Winton, the former exploration director of Tricentrol.

Tricentrol made substantial discoveries in the North Sea in the 1980s before being bought by Arco, the US oil company.

Emerald Energy is based on the Isle of Man. It will place 170m new shares at 1p each through brokers John Siddall and Son, and Walker, Crips, Weddle, Beck. Trading will begin next Tuesday. Its shares have traded under Rule 535(2).

Mr Iain Alexander, who will take over as chairman, says the bulk of the £1.51m Emerald intends to raise will be used to develop US oil and gas assets acquired from Mr Winton's Cobham Oil and Gas for £500,000 in shares and options.

The 46 wells on 4,200 acres of land in west Virginia are located in the Appalachian Basin, where oil and gas have been produced since the late 1800s.

Many of the wells are not in production, but Mr Winton, who takes over as managing director of Emerald, says a combination of deepening existing wells and drilling 120 new ones nearby "will open up significant reserves".

Emerald's strategy is to take advantage of the recent deregulation of the US natural gas industry and the higher prices which have ensued by seeking additional acquisitions of existing fields whose output can be increased without big capital investment.

Mercury Asset expands 42% to £50.4m

By Norma Cohen, Investments Correspondent

MERCURY Asset Management, the UK's largest fund management company, yesterday reported a 42 per cent rise from £35.5m to £50.4m in pre-tax profits for the six months to September 30 1993.

The company, which is 75 per cent owned by SG Warburg, also raised its interim dividend to 4p per share compared with 3p.

Total funds under management rose 11.7 per cent in the period to £55.5bn, although the increase in net new money, after effects of rising securities prices, was £1.1bn.

Mr Hugh Stevenson, chairman, said of that amount roughly £350m was on behalf of the company's retail fund management businesses including private client and unit trust activities.

A further £500m to £600m is growth in its core UK pension fund institutional fund management business.

Operating costs were also up sharply from £45.8m to £56.8m, which partly reflected higher staff compensation costs, the directors stated.

However, analysts noted that the company's ratio of revenues to funds under management had slipped marginally to 0.37 per cent against 0.38 per cent.

This reflected the declining fee scales offered to larger sums under management.

Mr Stevenson said that while the retail businesses were growing more quickly than the institutional side, which had dominated MAM's stable of clients, he believed there was further room for expansion in the UK pension fund market.

MAM had also picked up significant new business managing international bond portfolios for US pension fund clients and had gained new Japanese pension fund clients.

Gt Portland Estates declines 4% to £16m

By David Blackwell

GREAT PORTLAND Estates, which in the summer raised £95m through a rights issue, reported a fall of just over 4 per cent in pre-tax profits for the six months to the end of September.

The group, the sixth largest UK property company, made £16m, down from a previous £16.7m. The dilutive effect of the rights issue and a higher tax charge pushed earnings per share down to 4.3p compared with 5.6p.

Acquisitions to the value of about £65m have been made since the rights issue, including shopping centres in Harlow and Torquay, a Reading office building, and retail property in Ilford and Sheffield.

In a full year these would add £6m of income, the directors said, adding that most of the leases had at least 15 years to run.

Mr Richard Peskin, chairman, said the purchases reflected the board's policy of expanding and diversifying the company's assets and ensuring "an extended period of secure income". Further acquisitions worth up to £20m were expected soon.

He described the result as "closely comparable" to last year's first half. The interim dividend has been cut from 3.3p to 2.7p and Mr Peskin expects the full-year dividend to be 8p (10p) as forecast in his statement last June.

The group said that a recent revaluation of 20 per cent of its portfolio, including most of its core property in the City, had shown an increase of 7 per cent since March. However, the group warned that this was not necessarily a reflection of the whole portfolio.

Net rental income edged ahead to £40.13m (£40m). Mr Peskin said that rents remained under pressure, particularly in London, but there had been encouraging signs of a revival in interest. About 5 per cent of the group's portfolio remains void in terms of both rent roll and total area, down from 6 per cent at the end of June.

Norcros rises 32% to £7.36m

By Paul Taylor

NORCROS, the building materials and specialist print and packaging group, yesterday reported higher interim profits mainly reflecting sharply reduced reorganisation costs and a modest recovery in trading conditions.

Pre-tax profits increased by 32.1 per cent to £7.36m for the 27 weeks to September 30, up from a restated £5.56m in the 26-week first half last year.

Earnings per share increased to 2.8p (2.4p) and the interim dividend is maintained at 3.5p.

Operating profits, including contributions from associates, rose to £12.56m (£9.01m) on turnover up by 9.57 per cent to £209.5m (£191.2m.)

The results have been prepared on an FRS 3 basis, and comparisons have been restated accordingly. The main impact of this change was to reduce operating profits in the comparable period by the £2.65m reorganisation and redundancy costs previously shown as extraordinary items.

Turnover from continuing operations increased by 9.58 per cent to £208.1m (£189.9m) while operating profits were almost 40 per cent higher at £12.1m (£8.7m).

Pre-tax profits were also boosted by a reduction in net interest costs from £6.92m to £5.2m reflecting lower interest rates and a reduced level of borrowings following the group's successful rights issue in June. Net borrowings at the end of September stood at £76.4m representing gearing of 44 per cent.

In the core buildings products division turnover increased by 4.7 per cent to £83.2m while operating profits grew by 22.8 per cent to £3.9m mainly reflecting the lower reorganisation costs.

In the ceramics division turnover rose by 15.4 per cent to £63.6m and operating profits jumped 44.4 per cent to £4.6m. Meanwhile the print and packaging division increased its turnover by 10.4 per cent to £61.9m and operating profits by 33.3 per cent to £5.2m.

The group has also made further progress disposing of its property assets. During the first half £5.2m was received from the sale of properties and, of the £40.8m balance at the half year, £17.2m of assets were under offer.

Intl Food shares dive 19p on warning

SHARES of International Food Machinery dived 19p to 35p yesterday as the company warned that profits for the year to December 31 were likely to be "substantially below" market estimates.

The reasons given were:

● The company has adopted a more stringent accounting policy for the recognition of sales;

● Two major contracts are unlikely to be completed prior to December 31;

● There has been a recent downturn in business in the UK and Europe which has particularly affected the meat and bakery division;

● Various exceptional expenses incurred in the reorganisation of the group and promotional expenditure in opening up overseas markets have been written off.

The company came to market in December 1992 with the shares priced at 51p. In September, when it reported a surge in pre-tax profits from £292,000 to £878,000 for the first six months of 1993, the shares rose by 9p to 80p.

COMMODITIES AND AGRICULTURE

EC set-aside policy not working say landowners

By Alison Maitland

THE European Community's policy of setting aside arable land to reduce cereal production is not working in many member states and is unfairly penalising countries like the UK, representatives of Britain's landowners said yesterday.

The Country Landowners' Association (CLA) cited European Commission figures obtained from the Ministry of Agriculture showing that the EC grain harvest this year had fallen by just 1.1 per cent, even though the 1992 Common Agricultural Policy reforms required arable farmers to leave 15 per cent of their land idle each year to cut production.

"These figures show there's something seriously wrong with the policy," said Mr George Dunn, the CLA's economist.

A Commission official said latest estimates from EC grain producers showed the overall harvest down 1.4 per cent, with several countries showing an increase in production. He admitted: "It's a mess."

The variations across the EC are huge. The UK cereal crop fell 11 per cent this year, while Irish output was down 16 per cent and French production fell by 8 per cent. But output was up 22 per cent in both Denmark and Spain, and German production rose nearly 3 per cent.

The CLA said some of the variations could be explained by the fact that states like Denmark suffered very poor cereal yields last year. But the main problem was the exemption from set-aside of small farmers producing less than 92 tonnes of cereals a year, it said.

"We'd like to see the [European] Council [of Ministers] seriously considering reducing the 92-tonne limit so that the burden of set-aside would be shared more equally," Mr Dunn said. "The UK has a large proportion of large farms and its efficiency in farm structure is working against it."

The Commission argues that the exemption for small farmers is essential to prevent them from being driven off the land by falling incomes.

Although Britain opposed the exemption at the time of the reforms, a senior official said yesterday that it was part of the deal and had to be accepted.

He said the effectiveness of set-aside would be more fairly judged by taking an average of three to four years' post-reform production compared with a base period of, say, 1989-1992, rather than by comparing just two consecutive harvests.

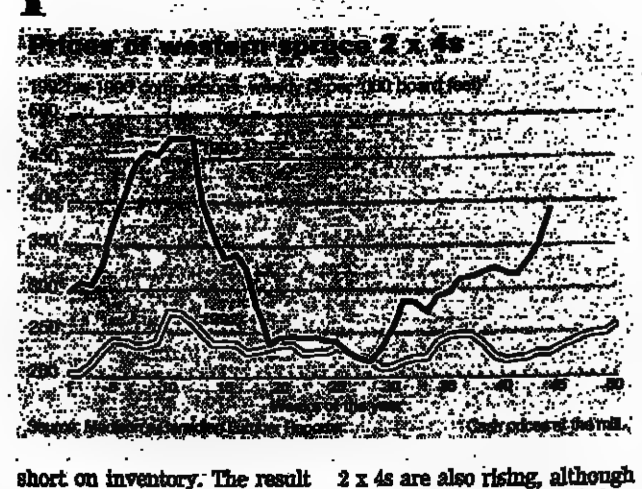
The first year of the five-year rotational set-aside scheme was expected to have less effect than subsequent years, since farmers initially leave their worst land fallow.

The CLA said it was studying alternatives to the set-aside policy, which would move the farming industry towards a free market.

One idea it is pursuing is the "Tangermann bond", a lump sum payment that would mark the end of price support. Existing farmers would be entitled to receive the payment in the form of an annual allowance to supplement their income for a certain number of years. Alternatively, they could sell it to other farmers if they wished to leave the industry, the CLA said.

Lumber prices back on increase

By Laurie Morse in Chicago



AFTER a brief summer lull, North American lumber prices have again begun to soar, with strict timber cutting limitations in US and Canadian pacific forests promising to collide with rising demand in the US home building sector.

Traders and timber interests expected the Clinton administration to find solutions to the forest impasse this year. However, there now appears to be only a slim chance there will be any easing in US timber cutting restrictions.

Meanwhile, demand for lumber for homebuilding is rising. Historically low interest rates inspired a 21 per cent jump in new home sales in the US in September, with housing starts also climbing.

US builders are completing new homes at a rate of 1.162m units a year, up from 1.128m a year ago. Rebuilding after the Midwest floods has added to that demand, and an unusually strong fall construction season has left lumber wholesalers short on inventory. The result has been a 30 per cent rise in western wood prices since August, with some analysts forecasting rallies as dramatic as the panic-driven surge that sent Chicago futures to a peak of $493.50 last March.

The January futures contract easily surpassed the $400 per 1,000 board feet benchmark on Monday, and is nearly $100 above its high for all of 1992. Cash prices for western spruce 2 x 4s are also rising, although so far they have stayed below the spring high of $475.

However, lumber analysts caution that prices for wood from alternative sources have already inflated, leaving little slack in the cash markets. Prices for construction dimension southern pine topped $495 last week, well above the March high of $435.

Mr Laurie Cater, editor of Madison's Canadian Lumber Reporter, said Canadian wood stocks, always viewed as a limitless back-up to US forest output, are nowadays less available because of provincial restrictions on timber cutting in environmentally sensitive areas. Mr Cater and other analysts say the recent rise in lumber futures prices has been exaggerated by speculation.

However, the supply and demand imbalance is real. Ms Evadna Lynn, senior forest products analyst at Dean Witter Reynolds, said total lumber supply in the US would be down 4 per cent this year, including a 2 per cent decline in lumber imports from Canada. Meanwhile, she said, US demand for lumber would rise from 5 per cent to 7 per cent.

"Obviously we have a very tight inventory situation," she said.

Last spring's lumber rally added about $5,000 to the cost of building an average home in the US, and builders are already building in the lumber mark-up in their new home prices.

A little help from their friends

Venezuela is using foreign investment to develop the nation's petroleum industry, writes Joseph Mann

Venezuela has announced a $45.9bn investment programme for its petroleum industry over the next 10 years that stresses a substantial increase in crude oil production capacity and the upgrading of oil refineries to produce higher-quality products.

The plan, which was announced by Mr Gustavo Roosen, president of national oil company Petroleos de Venezuela SA (PDVSA), assigns a key role to foreign investment in Venezuela's oil and gas sectors for the first time since the country nationalised all private oil companies in 1976.

Of the $48.5bn in projected capital spending, PDVSA plans to invest $29.1bn or 60 per cent of the total directly, while private companies – mainly foreign investors – are expected to supply the remainder of about $19.4bn. Groups such as Royal Dutch/Shell, Exxon, Conoco, Mitsubishi and Total are already planning large joint-venture projects with PDVSA in natural gas and heavy oil. And the Venezuelan oil company is actively seeking new partners for a variety of other projects in oil exploration and production, refining, petrochemicals and coal.

PDVSA ranks as one of the world's biggest oil companies; at the 1992 year-end it had 63.3bn barrels of crude oil reserves, the largest outside the Middle East.

One of the main thrusts of the company's investment programme is to develop crude oil production potential of 4m barrels per day (b/d) by 2002, up 1.1m b/d from the current capacity of approximately 2.9m b/d.

New exploration work will be carried out in traditional oil production zones and other areas, and PDVSA's goal is to raise proved reserves of crude oil to 65bn barrels over the next decade, up 3 per cent from the current level.

International investors are becoming involved in PDVSA's plans through operating agreements, production sharing and strategic associations.

Under operating agreements, private companies invest to develop production of crude oil and natural gas in so-called "marginal fields", or areas with relatively small volumes of production that PDVSA does not wish to operate directly. Investors do not own the oil and gas they produce but are compensated according to production volume.

The first operating agreements were signed in 1992, and earlier this year British Petroleum agreed to invest around $60m over the next three years in a marginal oil field under a 20-year operating agreement.

Using a BP study, PDVSA has also identified sectors in eastern Venezuela with strong prospects for large discoveries of light and medium-weight crudes, which Venezuela needs to balance out its existing reserves, now dominated by heavy crudes.

Next year, PDVSA plans to look for international partners who will assume all the risks to develop these zones. If commercial quantities of oil are discovered, PDVSA will share future production with the foreign partner.

Last August, PDVSA received congressional approval to move ahead with two multi-billion dollar projects to produce and upgrade heavy oil. Conoco, Total, Itochu and Marubeni are the international partners. The investors plan to produce heavy and extra-heavy crude from Venezuela's Orinoco Belt (a large reserve of heavy oil), and use delayed coking to convert it into lighter-weight, higher-value crude for export. In addition, PDVSA, Shell, Exxon and Mitsubishi are developing a $5.6m project to produce liquefied natural gas (LNG) for export.

In refining, PDVSA will complete upgrading projects at three of its home refineries and raise crude processing capacity at these plants and Curacao – where it leases a former Shell refinery from the government – from the current level of 1.1m b/d to 1.2m b/d by 2002. That increase will be quite small in volume terms but the company is investing heavily to upgrade and modernise the refineries so that they can turn out high-quality, increased-value refined products, meeting tougher environmental standards in the US and other markets.

PDVSA, which already owns, either wholly or jointly, large oil refining operations in the US and Europe, plans to expand its overseas network through the acquisition of new refining capacity. The company would not comment on its acquisition plans, but executives said future marketing efforts would focus on Latin America and Asia, as well as on expanding market share in the Caribbean.

In developing their 10-year programme, PDVSA planners are assuming 2 per cent annual growth in world energy demand during 1992-2002, with projected demand for hydrocarbons reaching 76m b/d by 2002, up from consumption of 66m b/d in 1990.

They also assume that potential demand for Venezuelan crude oil on international markets will rise to around 3.6m b/d in 2002, and to 4.5m b/d in 2010. Home demand for refined oil products is expected to grow at 2 per cent a year.

Venezuela's crude oil production last year averaged 2.33m b/d, while exports of crude and refined products averaged 2.1m b/d, with crude accounting for 1.43m b/d of the total.

A large share of the country's crude oil exports is processed at PDVSA refineries in the US and Europe.

Oil hits post-Gulf war low

By Robert Corzine

OIL PRICES hit a new post-Gulf war low of $16.40 a barrel for Brent Blend yesterday. The price later recovered to $16.55 in late London trading, but analysts saw little scope for any early sustained rise.

News agency reports said ministers from the Organisation of Petroleum Exporting Countries had begun telephone contacts on ways of shoring up prices.

A Reuters report said those included a possible appeal to non-Opec countries to reduce their output as well as the possibility of a cut in the Opec production ceiling of 24.52m barrels a day.

Analysts noted, however, that any reduction in non-Opec production would have to include significant cuts in North Sea output, which is expected to surge by as much as 790,000 barrels a day by next month compared with September.

"There is no chance that the UK government would go along with any cuts," said Dr Leonidas Drollas, chief economist at the London-based Centre for Global Energy Studies. "And I doubt that Norway would do it again," he added, in a reference to Oslo's decision in the 1980s to close some production facilities at a time of very low oil prices.

WHO smoking target attacked

By Alison Maitland

A 10 per cent reduction in smoking, urged by the World Health Organisation, would lead many tobacco-producing countries in the developing world to rely more heavily on international aid, according to a report published yesterday.

The report, entitled Tobacco Trade or Aid?, by the International Tobacco Growers' Association, examines the impact of a hypothetical fall in demand of 10 per cent by 1995 on the economies of six developing countries.

The association promotes the interests of tobacco-growing organisations around the world, including those from the US and Canada as well as Latin America and Africa.

It concludes that the six countries – Brazil, Bulgaria, Kenya, Malawi, Tanzania and Zimbabwe – would suffer a collective loss of nearly $120m from a fall in export volumes of more than 59,000 tonnes.

Malawi and Zimbabwe depend most heavily on tobacco for foreign exchange.

Malawi's tobacco exports last year accounted for 59 per cent of total exports and contributed 16.7 per cent of gross domestic product. The loss of 10 per cent of projected tobacco export earnings in 1995 would be equivalent to 8 per cent of the aid it received in 1991, the report says.

For Zimbabwe, the potential loss of $41m in foreign exchange would represent the equivalent of 25.7 per cent of its 1992 balance of payments deficit, and more than half the country's spending on social security and welfare.

Pointing to the WHO's objective of a fall of more than 10 per cent in smoking in at least 20 per cent of its member states by 1995, compared with 1988, the report attacks what it calls "a new imperialism".

"Denied the dignity of contributing to their own development through foreign exchange earnings from tobacco, all the countries profiled in the present study and many other would... become more dependent on the largesse of the aid donor community," it says.

Last year the association published a report arguing that there were no sustainable alternative crops that would achieve the same level of earnings for most tobacco farmers.

The Overseas Development Administration in London said yesterday it was looking at ways of helping developing countries find sustainable alternatives to tobacco. Since 1991, ODA policy has been to refuse to fund or support projects in the tobacco sector.

Tobacco Trade or Aid? ITGA, PO Box 125, Forest Row, East Sussex RH18 5FA, England.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1590-1640 (1,560-1,625).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.30-2.50 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.38-0.42 (same).

COBALT: MB free market, 99.8 per cent, $ per lb, in warehouse, 11.15-11.70 (11.40-12.00); 99.3 per cent, $ per lb, in warehouse, 10.20-10.80 (10.65-11.10).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 90-105 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.55-2.65 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.45-5.25 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 27-39 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.35-1.45 (same).

URANIUM: Nuexco value, $ per lb, U_3O_8, 6.90 (same).

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	+6,675	to 2,519,875
Copper	-3,100	to 600,375
Lead	-400	to 299,150
Nickel	-78	to 119,280
Zinc	+5,400	to 843,375
Tin	-230	to 18,985

WORLD COMMODITIES PRICES

MARKET REPORT

TIN prices collapsed on the London Metal Exchange yesterday afternoon when the market broke below the $4,700 a tonne floor of the current $200 technical range, dealers said. Sell stops pushed tin to a low of $4,640 a tonne before some bargain-hunting trade buying emerged after hours. Three-month tin closed $168 a tonne down at $4,649.50. NICKEL capitalised on the recent improvement in sentiment, which has resulted in less selling pressure when the market moves up. However, dealers suggest the market remains oversupplied and is still in need of further production cuts. Yesterday's advance petered out near the $4,800 a tonne level once more and three-month prices finished at $4,757.50, up $30. SILVER after a relatively strong performance on the New York Commodity Exchange on Monday closed in London last night 40 cents up at $4.525 an ounce. London SUGAR fell sharply yesterday afternoon in hectic New York-led fund liquidation. Both white and raw sugar lost ground, but by late afternoon in London the markets had steadied and prices recovered.

Compiled from Reuters

London Markets

SPOT MARKETS

		+ or -
Crude oil (per barrel FOB)(Dec)		
Dubai	$14.05-4.10v	-0.10
Brent Blend (dated)	$15.15-5.19	-0.185
Brent Blend (Dec)	$15.50-5.54	-0.185
W.T.I. (1 pm est)	$16.64-6.67v	-0.15
Oil products (NWE prompt delivery per tonne CIF)		
Premium Gasoline	$174-177	
Gas Oil	$166-169	
Heavy Fuel Oil	$64-66	-1
Naphtha	$148-151	
Petroleum Argus Estimates		
Other		
Gold (per troy oz)♦	$375.80	-0.85
Silver (per troy oz)♣	452.50c	+4.00
Platinum (per troy oz)	$376.10	+0.85
Palladium (per troy oz)	$128.90	+0.15
Copper (US Producer)	80.0c	
Lead (US Producer)	33.50c	
Tin (Kuala Lumpur market)	Unq	
Tin (New York)	221.50c	
Zinc (US Prime Western)	Unq	
Cattle (live weight)†	119.73p	-2.53*
Sheep (live weight)†♣	80.49p	+1.10*
Pigs (live weight)†	69.23p	+0.21*
London daily sugar (raw)	$268.0	-3.6
London daily sugar (white)	$297.5	-1.0
Tate and Lyle export price	$293.0	-1.5
Barley (English feed)	£106.5t	
Maize (US No. 3 yellow)	£120.5	
Wheat (US Dark Northern)	£175.0	
Rubber (Dec)♥	61.00p	
Rubber (Jan)♥	61.25p	
Rubber (KL RSS No 1 Jul)	207.0m	
Coconut oil (Philippines)§	$442.5v	
Palm Oil (Malaysian)§	$347.5u	
Copra (Philippines)§	$295.0	
Soyabeans (US)	£187.5w	-2.0
Cotton "A" Index	53.95c	-0.20
Wooltops (64s Super)	363p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. [illegible]. ♦Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices. * change from a week ago, provisional prices.

Compiled from Reuters

CRUDE OIL - IPE $/barrel

	Latest	Previous	High/Low	
Dec	15.68	15.58	15.74	15.39
Jan	15.97	15.86	16.05	15.69
Feb	16.21	16.08	16.21	15.90
Mar	16.36	16.15	16.36	16.05
Apr	16.50	16.21	16.50	16.21
May	16.60	16.49	16.60	
Jun	16.70	16.56	16.70	
Jul	16.80	16.65	16.80	
IPE Index	15.73	16.24		

Turnover 39814 (49008)

GAS OIL - IPE $/tonne

	Close	Previous	High/Low	
Nov	165.00	162.00	165.25	161.25
Dec	163.25	161.75	163.25	159.50
Jan	161.00	160.75	161.25	159.00
Feb	160.50	160.25	160.50	158.25
Mar	159.75	158.50	159.75	158.00
Apr	158.50	156.50	158.50	157.00
May	156.00	158.00	158.00	157.00
Jun	157.75	157.50	157.00	
Jul	159.00	159.75	159.00	

Turnover 26009 (20082) lots of 100 tonnes

SUGAR - LCE ($ per tonne)

White	Close	Previous	High/Low	
Dec	279.20	286.90	289.20	278.50
Mar	274.10	283.20	284.00	273.10
May	276.30	284.80	283.30	276.50
Aug	280.80	286.10	280.80	
Oct	268.80	278.19	278.50	269.80
Dec	270.00	276.00		

Turnover 4869 (3257) Paris- White (FFr per tonne): Dec 1620.32 Mar 1628.74

No.7 PREMIUM RAW SUGAR - LCE (cents/lbs)

	Close	Previous	High/Low	
Mar	10.33		10.65	10.32
May	10.66		11.03	10.56
Jul	10.62	11.32	11.28	10.62

Turnover 375 (0) lots of 50 tonnes.

COCOA - LCE £/tonne

	Close	Previous	High/Low	
Dec	910	936	911	896
Mar	947	938	951	934
May	954	946	957	942
Jul	954	947	950	940
Sep	953	948	953	946
Dec	947	940	945	939
Mar	947	936	946	941
May	949	940	946	944

Turnover 5922 (3396) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Nov 8 824.41 (807.19) 10 day average for Nov 9 811.84 (815.26)

COFFEE - LCE $/tonne

	Close	Previous	High/Low	
Nov	1213	1211	1214	1126
Jan	1229	1228	1232	1218
Mar	1220	1213	1210	1189
May	1209	1202	1200	1189
Jul	1197	1193	1195	
Sep	1197	1196	1187	

Turnover 2229 (3122) lots of 5 tonnes. ICO indicator prices (US cents per pound) for Nov 8 Comp. daily 69.11 (69.08) 15 day average 69.15 (69.16)

POTATOES - LCE £/tonne

	Close	Previous	High/Low	
Apr	85.9	84.5	86.0	85.0
May	101.3	99.2	103.0	101.0

Turnover 101 (93) lots of 20 tonnes.

FREIGHT - LCE $10/index point

	Close	Previous	High/Low	
Nov	1330		1330	1287
Dec	1341		1333	
Jan	1365		1335	
Apr	1346	1347	1350	
Jul	1208		1210	1208
BFI	1332	1316		

Turnover 58 (0)

GRAINS - LCE £/tonne

Wheat	Close	Previous	High/Low	
Jan	99.30	99.35	99.25	99.00
Mar	101.20	101.00	101.30	100.90
May	103.10	102.95	103.05	103.00
Sep	91.40		91.40	

Barley	Close	Previous	High/Low	
Jan	103.20	103.15	103.35	103.00
Mar	105.05	105.00	105.05	

Turnover: Wheat 312 (131) Barley 19 (11). Turnover lots of 100 Tonnes.

COTTON

Liverpool-Spot and shipment sales amounted to 31 tonnes for the week ended 5 November against 91 tonnes in the previous week. Subdued offtake did not bring many operations. Support was forthcoming in certain specialist styles, notably in the Turkish range.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 47,218 lots
Cash	1030.5-1.5	1040-1	1032	1031.5-2.5		
3 months	1051.5-2.0	1061.5-2.0	1057/1049	1052-2.5	1055-5.5	245,457 lots
Copper, Grade A ($ per tonne)						Total daily turnover 32,170 lots
Cash	1637-8	1642.5-3.5	1648/1647	1647-8		
3 months	1660.5-1.0	1666-6.5	1674/1660	1670-1	1665-5.5	194,322 lots
Lead ($ per tonne)						Total daily turnover 6,632 lots
Cash	[illegible]	[illegible]	[illegible]	[illegible]		
3 months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nickel ($ per tonne)						Total daily turnover 11,961 lots
Cash	4725-30	4700-10	4690/4670	4670-5		
3 months	4785-90	4755-60	4780/4740	4740-5	4775-85	46,287 lots
Tin ($ per tonne)						Total daily turnover 3,599 lots
Cash	[illegible]	4760-70	4705	4707-10		
3 months	4649-50	4815-20	4810/4640	4760-65	4665-5	13,654 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 16,410 lots
Cash	929.5-30.5	926-8	925	925-6		
3 months	947-7.5	945-7	951/943	956-8	946-7	91,920 lots

LME Closing £/$ rate [illegible]; LME AM Official £/$ spot rate 1.4785

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	375.40-375.80	
Opening	375.20-375.60	
Morning fix	376.35	254.807
Afternoon fix	376.00	254.881
Day's High	376.90-377.40	
Day's Low	374.90-375.40	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.70	6 months	3.11
2 months	2.70	12 months	3.14
3 months	2.70		

Silver fix	p/troy oz	US cts equiv
Spot	307.35	454.25
3 months	311.75	457.75
6 months	315.15	461.35
12 months	323.05	470.00

GOLD COINS	$ price	£ equivalent
Krugerrand	378.00-382.00	255.00-258.00
Maple leaf	388.45-398.85	
New Sovereign	87.00-90.00	59.00-61.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Dec	Mar	Dec	Mar
1025	37	61	18	19
1050	23	46	28	29
1075	13	34	41	42
Copper (Grade A)	**Calls**		**Puts**	
1625	53	88	23	35
1650	38	74	34	44
1675	28	61	48	58
Coffee LCE	**Jan**	**Mar**	**Jan**	**Mar**
1150	101	116	22	38
1200	66	92	[illegible]	[illegible]
1250	45	71	[illegible]	[illegible]
Cocoa LCE	**Dec**	**Mar**	**Dec**	**Mar**
875	[illegible]	[illegible]	[illegible]	[illegible]
900	[illegible]	[illegible]	[illegible]	[illegible]
925	[illegible]	[illegible]	[illegible]	[illegible]
Brent Crude	**Dec**	**Jan**	**Dec**	**Jan**
1600	[illegible]	[illegible]	[illegible]	[illegible]
1650	[illegible]	[illegible]	[illegible]	[illegible]
1700	[illegible]	[illegible]	[illegible]	[illegible]

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Nov	376.0	374.6	0	0
Dec	376.4	375.0	378.4	374.7
Jan	377.5	375.8	0	0
Feb	378.6	377.0	379.5	376.1
Apr	380.5	378.8	381.5	378.0
Jun	382.5	380.8	382.5	379.8
Aug	[illegible]	[illegible]	0	0
Oct	[illegible]	[illegible]	0	0
Dec	[illegible]	[illegible]	[illegible]	[illegible]

PLATINUM 50 troy oz; $/troy oz. — SILVER 5,000 troy oz; cents/troy oz. — HIGH GRADE COPPER 25,000 lbs; cents/lbs — CRUDE OIL (Light) 42,000 US galls $/barrel: [illegible]

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Dec	50.60	50.70	51.05	50.10
Jan	51.35	51.58	51.85	50.80
Feb	51.80	51.82	52.00	51.40
Mar	51.60	51.62	52.00	51.25
Apr	[illegible]	[illegible]	[illegible]	[illegible]

COCOA 10 tonnes; $/tonnes — COFFEE "C" 37,500lbs; cents/lbs — SUGAR WORLD "11" 112,000 lbs; cents/lbs — COTTON 50,000; cents/lbs — ORANGE JUICE 15,000 lbs; cents/lbs: [illegible]

INDICES

REUTERS (Base: September 18 1931 = 100)

Nov 9	Nov 8	mnth ago	yr ago
1613.8	1617.3	1578.4	1644.1

DOW JONES (Base: Dec. 31 1974 = 100)

	Nov 5	Nov 5	mnth ago	yr ago
Spot	120.20	120.76	119.51	114.77
Futures	133.82	133.58	127.28	115.73

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel — SOYABEAN OIL 60,000 lbs; cents/lb — SOYABEAN MEAL 100 tons; $/ton — MAIZE 5,000 bu min; cents/56lb bushel — WHEAT 5,000 bu min; cents/60lb-bushel — LIVE CATTLE 40,000 lbs; cents/lbs — LIVE HOGS 40,000 lb; cents/lbs — PORK BELLIES 40,000 lbs; cents/lb: [illegible]

LONDON STOCK EXCHANGE

US inflation news prompts recovery

By Terry Byland, UK Stock Market Editor

LONDON joined in the general sigh of relief throughout Europe yesterday afternoon when the US Federal bond market rose strongly following heartening news on inflation on the other side of the Atlantic. After another nervous, futures-led session, the FT-SE 100 Index reversed an early fall to end 18.4 up at 3,096.0, the day's best reading. The December contract on the Footsie cleared 3,100 several times but could not move above 3,105.

Having cleared the first hurdle of the week, the London market is now waiting for the US consumer price index, to be announced today. UK blue chips responded readily towards last night's market close to gains in the US dollar and bond markets, the latter quickly reflected in firmness in British government bonds.

Equities had opened firmly in London, brushing off the setback in Tokyo and preferring to respond to the steadier trend on Wall Street. But an early gain of 14.4 on the Footsie was wiped out when a UK securities house, apparently turning nervous ahead of the impending statistics from across the Atlantic, sold the December futures contract heavily.

After dipping to 3,072.2, minus 5.4, the market rallied on the US bond market's favourable response to the welcome news that US producer prices had fallen by 0.2 per cent in October, compared with fears of a 0.2 per cent gain.

The US bond market's worries over inflation provided the basis for last week's shake-out in equities throughout Europe, so London was happy to follow the advance achieved yesterday afternoon across the leading European bourses.

Although market volume jumped smartly towards the close, returning a Seaq total of 775.5m shares, compared with Monday's 557.7m, traders warned that the mood remained cautious. The FT-SE Mid 250 Index, still a softer target than the Footsie for bearish strategies, finished 0.9 easier at 3,439.8. On Monday, when the market struggled to resist the overflow from Friday's sell-off, retail, or customer, business was worth £1.3bn.

London traders will be watching overnight for the closing reading on Wall Street, hoping that a strong close on the Dow Average will propel the Footsie through the 3,100 mark today.

The dollar's strength encouraged blue chip internationals, with oil issues standing out very firmly, and only Zeneca remaining out of favour among the pharmaceuticals. BAT Industries found additional strength from confirmation, in the form of a move by RJ Reynolds, of the US, that cigarette prices are likely to rise.

The soothing of inflation fears also restored faith in prospects for a base rate cut in the UK. Store and consumer shares attracted favourable comment from brokerage houses and regained their poise, while building and construction issues returned to centre stage.

Market optimists drew support from evident signs of bed and breakfast activity, where shares are sold for tax reasons with the intention of repurchase in the next session.

A rush of such deals yesterday suggested that fund managers are confident that the stock market shakeout has run its course, at least for the time being. But the near term outlook for London is still vulnerable to developments on Wall Street.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
[illegible]			

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Warburg gain reversed

THE RECENT boom in London's financial markets was underlined yesterday by a surge in profits for S.G. Warburg. However, the reaction of investors suggested that confidence in further rises in equity and bond markets may be coming to an end.

One analyst said: "All markets have gone their way, but this is a cyclical business and Warburg will struggle to maintain momentum." After hitting a high of 890p in the morning, Warburg's share price closed 20 lower on the day at 867p.

However, there are now more pessimistic analysts were forced to upgrade forecasts after Warburg announced first-half profits of £148.8m, against a market consensus of £135m and a profit of £81.2m last time. NatWest Securities, which had advised clients to take profits when opportunities presented themselves, has shifted its full-year forecast to £278m from £248m.

Among the more enthusiastic analysts, Mr Martin Green of Smith New Court said he would be upgrading to above £300m, while Mr Martin Cross of UBS also expected to be around £300m.

Mr Cross said that if first-half earnings were annualised, that would indicate an undemanding p/e ratio of 11 times. He added that there were no signs that the present economic conditions, which had done so much for financial markets, were about to end.

Brewery pressures

With Whitbread yesterday going unconditional on its offer for the remainder of the Whitbread Investment Company (WIC), made last month, attention once again focused on the brewing group's investment intentions. The latest talk in the market suggests that Whitbread has already been in discussions with the brewing groups it holds stakes in with a view to selling back its holdings.

Such a move would be in line with WIC's passive role and save Whitbread the trouble of unloading its substantial stakes into a weak drinks market, according to dealers. One analyst also suggested that Whitbread was likely to use its talks with the various regional brewers to strengthen existing marketing arrangements and to explore new liaisons.

However, Whitbread is only under pressure to reduce its stakes in two groups – Boddington and Marston – to comply with the government's Beer Orders and could yet drip its stakes back into the market at its leisure. Whitbread's 14.9 per cent stake in Morland would be of great interest to Greene King, which it failed to buy last year and in which it still holds a 29.3 per cent holding. Intriguingly, Greene King raised £15m at the weekend through the PubCo debenture vehicle.

Share prices in the drinks sector trod water yesterday. Whitbread hardened a penny to 483p, Marston slipped the same amount to 283p, as did Morland to 518p and Boddington to 255p. Greene King steadied at 569p.

Stores brighten

Store shares were again a positive feature in the market as two leading brokers suggested that the sector was in for a bright pre-Christmas run. In hefty research notes, Hoare Govett and NatWest Securities both argue that the pick-up in consumer spending – indicated by the most recent consumer spending statistics – will gain momentum into the Christmas shopping period, with upside seen for selected stocks with exposure to the traditional seasonal upswing.

While NatWest has some worries about any dampening effect of the Budget later this month, Hoare Govett is more bullish. Analyst Ms Emma Burdett said: "We believe that the Budget will leave the majority of consumers little worse off and Christmas trading will show a significant improvement on last year."

Both houses favour Kingfisher, up 6 at 646p, Dixons, ahead 2 at 282p, and MFI, 2½ forward at 143p. NatWest also likes Argos, up 6½ at 345p, while Hoare recommends Sears, ahead 2 at 117p. However, the two brokers believe the upswing to be relatively short-lived and take a much more cautious stance on the sector post the Christmas period.

Food retailers dull

There was further depressing news in the food retail sector as Smith New Court, the stockbroker, cut profits forecasts for the leading supermarket groups. In a major review of the market, Smith went further down the negative track than any other broker so far in suggesting that the sector will see virtually nil earnings growth in the 1994-95 financial year. The house, which blamed the recent round of price competition for its move, was previously looking for earnings growth of 7 to 8 per cent.

Supermarket stocks steadied yesterday, although dealers said this was only a temporary halt, with few signs of buying around. Of the leaders, brisk trading saw Argyll Group stay at 257p with 10m dealt, J. Sainsbury added 2½ at 368½p in volume of 6.4m, and Tesco slipped 2 to 184p in turnover of 7.1m.

A downgrade from Cazenove on First Leisure was said to be responsible for the shares tumbling 20 to 257p. The broker, which has a policy of not commenting on market rumours, was said to have cut its profit forecast from £38m to £36m. The market range is £38m-£41m. Forte again outshone the market for a second session, with reports of management changes at the Savoy Group possibly responsible. Forte has a majority of shares in the hotel group but a minority of the votes. Forte shares gained 5 at 224p. Savoy held at 790p.

Tobacco and insurance conglomerate BAT Industries rose 13 to 491p as the end of the tobacco price war in the US was marked by a price rise from RJR Nabisco. Its subsidiary R.J. Reynolds Tobacco raised cigarette prices to wholesalers by 40 cents a pack.

Conglomerate Hanson which generates much of its profits in the US was helped by a rise in the US stock market and also by buying of call options, derivatives which give investors the right to buy shares at a fixed price and date and usually indicate confidence that the share price is set to rise. The shares gained 5½ to 275½.

High street bank NatWest recovered 8 to 547p in spite of an announcement that Ulster Bank, its Belfast-based subsidiary, was cutting variable loan rates in the Republic of Ireland, including mortgages, by 0.5 per cent to 7.75 per cent.

Pharmaceuticals group Fisons was weak in a generally stronger sector on consideration of the company's announcement that it had suspended its West Midlands sales manager following allegations of unethical sales practices.

Analysts said press allegations that some Fisons salesmen had tried to bribe doctors into prescribing its asthma drug Tilade had only added to the problems of a group already struggling with a weak product pipeline.

The shares closed 4 off at 143p with some additional pressure said to have come from the first half of a large bed and breakfast trade, a deal in which shares are sold just before the close of trading and bought back first thing the next day in order to establish a tax-loss.

Elsewhere, Glaxo added 6 at 659p, Wellcome rose 8 to 685p and SmithKline Beecham rebounded 13½ to 409p.

In spite of further falls in the price of Brent crude, BP's share price lifted 8 to 360p on heavy turnover of more than 14m shares.

Analysts said UK institutions who had been left increasingly underweight of the stock because of persistent US buying had taken the opportunity of a dip in the price to pick up stock.

Shell Transport rose 4 to 724p ahead of third-quarter figures tomorrow.

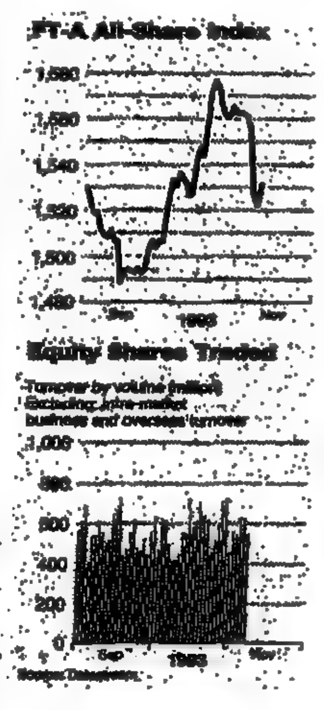
The share price of Pittencrieff, the oil and gas group, rose 18 to 454p as the company announced it had agreed to acquire an additional 24.8 per cent working interest in the Patricia gas field in Alberta, Canada, and adjoining assets for C$6.75m.

The share price of FII, the diversified manufacturer, slumped 61 to 280p after the company warned that forthcoming profits would be significantly lower.

A profits warning also hit International Foods. The shares fell 19 to 35p after the company said a downturn in European and UK business and delays in some big contracts meant that profits for this year would be "substantially below market estimates."

MARKET REPORTERS:
Christopher Price,
Peter John.

■ Other statistics, Page 24



NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (91). BRITISH FUNDS (1) Treas. 2pc I-L 1994, ... BREWERS (2) Macallan-Glenlivet, Merrydown, BUSINESS SERVS (2) Inchcape, Intl. Food Machinery, CHEMS (2) Courtaulds, Hickson, CONGLOMERATES (1) Amer A, ELECTRICALS (1) Brick, ENG AERO (1) FR, ENG GEN (1) Beverley, FOOD MANUF (1) Utd. Biscuits, FOOD RETAILING (2) Kwik Save, Low (Wm), HEALTH & HSEHOLD (3) Fisons, Shield Diagnostics, Smith & Nephew, HOTELS & LEIS (2) Euro Disney, First Leisure, INV TRUSTS (2) Dunedin Japan, Perpetual Japanese, MISC (4) Delaney, FII, Ross, Shanks & McEwan, MOTORS (1) Select Inds., OTHER FINCL (1) Policy Portfolio, PACKG, PAPER & PRINTG (3) Bowater 7¾pc Pf., Ossory Ests., St. Ives.

FINANCIAL TIMES EQUITY INDICES

	Nov 9	Nov 8	Nov 5	Nov 4	Nov 3	Year ago	*High	*Low
Ordinary share	2330.3	2325.3	2332.8	2376.0	2363.7	2018.5	2414.2	2134.7
Ord. div. yield	3.86	3.89	3.87	3.80	3.87	4.55	4.82	3.82
Earning yld % full	4.63	4.65	4.63	4.54	4.49	6.44	6.38	4.17
P/E ratio net	27.09	26.93	27.05	27.53	27.91	19.88	28.30	19.40
P/E ratio nil	25.12	24.97	25.09	25.82	25.87	18.30	26.14	18.14
Gold Mines	232.2	233.3	235.8	231.0	228.6	85.2	240.2	80.0

*for 1993. Ordinary share index since compilation: high 2414.2 31/8/93 - low 49.4 26/6/40
Gold Mines Index since compilation: high 734.7 15/2/83 - low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2328.6	2337.5	2330.5	2335.3	2333.9	2325.3	2326.0	2328.6	2330.6	2340.3	2325.2

Volume	Nov 9	Nov 8	Nov 5	Nov 4	Nov 3	Year ago
SEAQ Bargains	28,785	30,352	33,678	29,755	28,588	27,433
Equity Turnover(£m)†	-	1307.9	1739.0	1728.5	1293.0	1119.3
Equity Bargains†	-	33,846	36,873	30,527	33,244	31,358
Shares traded (mil)†	-	551.9	628.6	632.5	552.5	584.9

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
3096.0 +18.4	3439.8 -0.9	1525.45 +6.34

	Nov 9	Day's change %	Nov 8	Nov 5	Nov 4	Year ago	Dividend yield %	Earnings yield %	P/E Ratio	Xd adj ytd	Total Return
FT-SE 100	3096.0	+0.6	3077.6	3085.6	3149.0	2714.6	3.81	5.63	22.08	84.88	1129.29
[illegible]											

Account Dealing Dates

First Dealings:	Nov 1	Nov 15	Nov 29
Option Declarations:	Nov 11	Nov 25	Dec 9
Last Dealings:	Nov 12	Nov 26	Dec 10
Account Day:	Nov 22	Dec 6	Dec 20

*New time dealings may take place from two business days earlier.

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3081.7	3089.0	3082.9	3085.6	3084.1	3072.2	3084.5	3089.3	3093.0	3096.0	3072.2
FT-SE Mid 250	3440.3	3444.0	3440.9	3442.8	3442.6	3438.2	3440.1	3442.8	3439.5	3445.8	3438.1
FT-SE-A 350	1557.5	1540.7	1542.1	1538.1	1588.5	1535.8	1538.7	1540.7	1541.8	1543.0	1533.8

Time of FT-SE 100 High: 4.30 pm Low: 1.00 pm

FT-SE Actuaries 350 Industry Baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Construction	[illegible]											
Health & H	[illegible]											
Water	[illegible]											
Banks	[illegible]											

LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1993 High	1993 Low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
Treas 8½pc 1994	[illegible]	—	[illegible]	[illegible]	8.44	[illegible]
14½pc 1994‡‡	[illegible]	—	[illegible]	[illegible]	14.11	[illegible]
[illegible]						

BRITISH FUNDS - Cont.

Notes	Price £	+ or -	1993 High	1993 Low	Yield Int.	Yield Red.
[illegible]						
Undated						
Consols 4pc	84¼	+⅛	[illegible]			
War Loan 3½pc‡‡	[illegible]	+⅛	[illegible]			
Conv 3½pc '61 Aft.	[illegible]	[illegible]	[illegible]			
Treas 3pc '66 Aft.	[illegible]	[illegible]	[illegible]			
Consols 2½pc	[illegible]	[illegible]	[illegible]			
Treas. 2½pc	[illegible]	[illegible]	[illegible]			

BRITISH FUNDS - Cont.

Index-Linked

Notes	Price £	+ or -	1993 High	1993 Low	Yield (1)	Yield (2)
[illegible]						

OTHER FIXED INTEREST

Notes	Price £	+ or -	1993 High	1993 Low	Yield Int.	Yield Red.
[illegible]						

Continued on next page

CROSSWORD

No.8,302 Set by GRIFFIN

ACROSS
1 Single politician scoffed after church (8)
5 Be ill following fool's attack (6)
10 Dog with her tail up (5)
11 Telephone one as involved in argument (9)
12 Mean to turn it on a volatile effusion (9)
13 Expect plant disease after end of August (5)
14 Replace small coins (6)
15 One running after mother stirring up anger (7)
18 Against having volunteers in control (7)
20 One cadging food in pub (6)
22 Twice heard you disposed of blue book (5)
24 Plot new role for Spanish gentleman (9)
25 Conducted group transferred to her cars (9)
26 Praise lieutenant after cutback (5)
27 Can withdraw remark without reason (6)
28 May break in false teeth for chum! (8)

DOWN
1 Catch investigating officer dropping round (6)
2 Left Ivan the Terrible protecting a monster (9)
3 Where one buys cheap goods down under? (7,8)
4 Six-footer adjusted tie after school period (7)
6 But it's not where one aims to hang pictures! (8,7)
7 Giving a pass away you said goodbye (5)
8 Binder for art I glue when damaged (8)
9 Bottle many silver miners used (6)
16 A tale a mug set here (9)
17 Blackleg promises to pay for bloomers (8)
19 Delicacy pleasant to try when empty (6)
20 Cut short, ring BT in Bali free (7)
21 A stout container, perhaps? (6)
23 Essayist against taking a taxi back at first (5)

Solution 8,301

FRINGE BENEFITS
GASCONADE BANAL
TRIP COMPANYCAR
VOUCHER SUMMON
RECOUP BANDEAU
ENDOGENOUS OTIC
SETUP INSURANCE
HESITANT REASON

JOTTER PAD

EQUITY FUTURES AND OPTIONS TRADING

DERIVATIVES markets responded strongly to the good news on US inflation but appeared to be meeting resistance at the close, writes Terry Byland.

Trading volumes remained high and determined selling by one UK house at midsession proved enough to bring out the stop-loss orders once again.

The official closing reading showed the December contract on the FT-SE 100 Index at 3,097 for a four-point premium to cash, a sorry outcome against an estimated fair value of 10. Earlier, the contract had moved erratically, touching 3,105 several times and clearly seeing resistance at that level.

The midsession sell-off took the contract down to 3,072, where it was virtually in line with the cash market. Volume in the contract rose sharply to a final total of just over 14,000 contracts. Independent traders were busy again but so were some of the big UK investment houses, which were still covering themselves ahead of US consumer statistics due today.

Volume dropped in traded options from 43,626 lots to 30,800, and attention turned towards individual stock options. At 14,887 contracts, interest in the FT-SE option fell smartly from 23,750.

The Euro FT-SE option saw 2,973 lots dealt, but Hanson headed the list of active stocks options with 2,138. Elsewhere, interest was scattered, with Thames Water (1,507) and Rolls-Royce (1,076) busy.

LONDON SHARE SERVICE

AMERICANS

Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs	18⅞	+1/32	20⅞	16⅝	15,849	2.4
Allegheny & W ♥	475p	+12	722p	399p	272.1	4.2
Amdahl	318p	—	591p	294p	387.1	1.0
Amer Cyanamid	38¼	-⅛	39	31¼	3,257	3.2
Amer Express	20⅝	-1/32	25⅛	14⅞	9,626	3.3
Amer T & T	37¾xd	—	43¾	33⅛	51,038	2.3
Ameritech	55¾	—	58¾	46	24,409	4.4
Anheuser-Busch	32½xd	-1/16	41¼	29⅞	8,993	3.0
BankAmerica	28¼	—	33⅛	27¼	10,043	3.3
Bankers NY	50⅞	-⅛	54¾	42⅞	4,284	4.1
Bell Atlantic	43¾	+¼	44¾	32¼	18,801	4.1
BellSouth	40	-⅛	42⅝	32⅞	19,760	4.6
Bethlehem Steel ♥	11⅛	+1/16	13¾	8½	1,006	—
Bowater	1298p	+15	1662p	1189p	490.8	3.7
CPC	31½	+1/16	34⅞	26	4,817	2.7
California Engy	1194p	—	1478p	1066p	217.4	—
Chase Manhattan	21⅝	+1/16	24⅞	17⅛	3,424	3.7
Chrysler	37½	+⅛	39	21¼	10,981	1.1
Citicorp	24⅛	-⅛	26	13⅞	8,864	—
Colgate-Palm	38⅞	+1/16	45⅞	32	6,167	2.5
Cont'l Bank	1618p	-17	1877p	1276p	1,635	2.5
Dana	38⅜	+1/16	39⅞	28⅞	1,760	2.8
Data General	635p	+11	951p	627p	175.2	—
Decora Inds ♥	98p	—	146p	98p	—	—
Dun & Brad	44⅛	—	45⅛	37⅛	7,912	3.7
Eaton	35⅞	-⅛	37⅛	25⅞	2,461	2.3
Echlin	22⅞	+1/32	22⅞	15⅞	1,293	2.1
FPL	25⅞	+1/16	27⅞	23¼	4,844	6.5
Ford Motor	41½	+1/16	43⅞	23⅞	20,417	2.8
Gen Elect	62⅝	-1/16	67⅞	53⅞	54,124	2.7
General Host ♥	402p	+3	723p	456p	—	4.6
Gillette	41xd	+1/16	42⅞	31⅞	9,036	1.4
Hasbro	20⅞	—	20⅞	20⅜	1,819	0.8
Honeywell	21⅞	-1/32	26½	20⅞	4,535	2.7
Houston Inds	32⅞	+⅛	33¾	28¼	4,257	6.1
Ingersoll-Rand	24⅞	-1/32	25⅞	19⅞	2,605	1.9
Lockheed	47	+¼	47	35⅛	2,914	3.0
Loew's	3371p	+135	3371p	1573p	2,459	0.6
Mabv Technology	345p	+35	354p	127p	—	—
Merrill Lynch	61	+⅛	65⅞	37	9,812	1.8
Morgan (JP)	47⅞xd	+⅛	52⅞	38⅛	9,137	3.4
Morris (Philip) ♣	36⅞	-⅛	52⅞	29	32,315	4.7
NYNEX n	28⅞	+⅛	32⅞	26⅛	5,984	5.4
Norwest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pennzoil	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- § Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ✦ Merger bid or reorganisation in progress
- $ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on SMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xcd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣ . Ring 081 643 7181 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT7498. [If calling from outside UK, dial +44 81 643 7181 or fax +44 81 770 3822] Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg. Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
AIB Grofund American	5	162.9	164.5xd	173.2	+6.50	0.00
AIB Grofund Equity	5	228.4	232.8	248.2	-0.20	1.30
AIB Grofund Euro	5	187.1	189.3	199.3	-0.50	0.00
AIB Grofund Ext Interest	3	115.5	115.5	118.6	—	[illegible]
AIB Grofund Gilt	3	79.30	79.30	82.68	-0.14	4.80
AIB Grofund Japan	5	170.8	172.4xd	181.5	-2.10	0.00

AXA Equity & Law Unit Tst Mngrs (1200)H

Equity & Law Hse, Corpn St, Coventry 0203 553231

Abbey Unit Tst Mngrs (1000)H

80 Holdenhurst Rd, Bournemouth 0345 717373

Capel-Cure Myers UT Mngt Ltd (1200)F

Fidelity Investment Management Ltd (1000)F

Fidelity Investment Servs Ltd (1200)F

130, Tonbridge Rd, Tonbridge TN11 9DZ
Callfree: Private Clients 0800 414161

Capital House Unit Tst Mngrs (1200)F

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ([illegible]) - 0001 to 1100 hours; ([illegible]) - 1101 to 1400 hours; ([illegible]) - 1401 to 1700 hours; ([illegible]) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Sun Alliance Unit Tst Mngmt Ltd (1200)F

Admsr: 5 Rayleigh Rd, Hutton, Brentwood, Essex

Sun Life of Canada Unit Mgrs Ltd (1000)H

Basingstoke, Hants

Sun Life Trust Mngmt Ltd (1200)H

101, Cannon St, London EC4N 5AD

Swiss Life Unit Tst Man Co Ltd (1200)F

Admin: 5 Rayleigh Road, Hutton, Brentwood, Essex

Morgan Grenfell Investment Funds Ltd

Exempt Funds

Morgan Stanley International

Murray Johnstone UT Mngmt

Murray Exempt Funds

NatWest Investment Management Ltd

PDFM Unit Managers Ltd

Barclays Life Assur. Co Ltd

252 Romford Road, London E7

Life Funds

Pension Funds

Black Horse Life Assurance

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Reliance Mutual
Reliance House, Tonbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	+ or -	Yield Gross
Deposit Acc Fd	173.6	182.7		-
Equity Acc Fd	454.5	478.5	-0.5	-
Managed Acc Fd	408.6	429.9		-
Prop Fd (1st Issue)	-	872.9		-
Prop Acc Fd (2nd Iss)	152.6	160.7		-
Trust Mngd Fd	238.3	250.9		-
RL Pension Funds				
Deposit Acc	259.2	289.7		-
Equity Acc	349.7	368.1	-0.5	-
Fixed Int Acc	273.1	287.4		-
Gilt Indx Lnk Acc	209.5	220.5		-
Managed Acc	465.3	489.8		-

J Rothschild Assurance PLC
J Rothschild House, Dollar Street, Cirencester
Telephone 0285 640302 Helpline 041-307 6300

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Income Distribution	109.4	115.4	-0.60	-
JRA/M&G Managed	135.7	143.9	-0.40	-
JRA/Scottish Amicable Mngd	127.5	134.3	-0.50	-
JRA/S James's Place Mngd	149.6	157.4	-0.60	-
Deposit	102.6	108.0		-
Far East	156.5	164.8	-0.30	-
Gilts	122.2	128.7	+0.20	-
Greater European	132.9	139.9	+0.90	-
North American	148.2	156.1	+0.90	-
UK Equity	129.1	135.9	-0.30	-
Pension Funds				
JRA/M&G Managed cap	135.2	142.4	-0.40	-
JRA/M&G Managed acc	143.6	151.2	-0.50	-
JRA/Scottish Amicable Mngd cap	127.3	134.1	-0.50	-
JRA/Scottish Amicable Mngd acc	135.2	142.4	-0.60	-
JRA/St James's Pl Mngd cap	163.0	171.6	-0.30	-
JRA/St James's Pl Mngd Acc	173.1	182.3	-0.30	-
Deposit cap	101.8	107.2	+0.10	-
Deposit acc	108.1	113.8	+0.10	-
Far East cap	156.6	164.8	-0.10	-
Far East acc	166.3	175.1	-0.10	-
Gilts cap	117.9	124.2	+0.30	-
Gilts acc	125.3	131.9	+0.30	-
Greater European cap	135.0	142.2	+0.90	-
Greater European acc	143.4	151.0	+0.90	-
North American cap	148.7	156.6	+0.10	-
North American acc	157.9	166.3	+0.10	-
UK Equity cap	129.4	136.2	-0.40	-
UK Equity acc	136.4	143.6	-0.40	-

Royal Heritage Life Assurance Ltd
Peterborough Business Pk, PE2 6GG 0733 390000

	Bid Price	Offer Price	+ or -	Yield Gross
Multi Gwth		735.0		-
Multi Gwth A Cap	462.8	487.1		-
Multi Gwth A Accum	735.1	773.8		-

Scottish Mutual Assurance plc - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Property Fund	118.1	124.4		-
Cash Fund	168.9	177.8		-
Pens Safety Fnd	280.0	294.8	+0.6	-
Pens Growth Fnd	237.4	249.9	-0.3	-
Pens Opportunity Fnd	240.5	253.2	-0.2	-
Pens W'wide Venture Fnd	189.8	199.8	+1.8	-
Pens UK Equity Fnd	230.6	242.8	-1.4	-
Pens UK Smlr Co's Fnd	193.6	204.1	-1.3	-
Pens European Fnd	304.5	320.6	+4.6	-
Pens Far East Fnd	394.3	415.1	+3.1	-
Pens Japanese Fnd	134.2	141.3	-1.5	-
Pens Nth American Fnd	307.2	323.4		-
Pens International Fnd	292.5	307.9		-
Pens Gilts/Fxd Int Fnd	238.5	251.1		-
Pens Index-Linked Fnd	191.9	202.1	+0.3	-
Pens Property Fnd	128.4	135.2		-
Pens Cash Fund	208.2	219.2	+0.1	-
Pens Halifax Fnd	220.0	231.6		-

Scottish Provident Group
6 St Andrew Sq, Edinburgh 031-556 9181
Scottish Provident Institution Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
With-Profits	106.5	112.2		-
Managed	257.0	270.6	+0.8	-
Blue Chip	138.8	146.2	+0.1	-
Equity	269.7	284.0	+0.6	-
International	275.9	290.5	+0.6	-
Property	201.1	211.8	+0.1	-
Fixed Interest	221.5	233.2	+0.1	-
Index-linked	184.6	194.4	-0.1	-
Cash	181.5	191.2	+0.1	-
Money Market	119.4	125.8		-
American Performance	181.0	190.6	+2.3	-
Europe Performance	121.7	128.2	+0.2	-
Far East Performance	124.6	131.2	+0.5	-
Worldwide Performance	140.7	148.2	+0.3	-
Pension Funds				
With-Profits Ord	199.9	210.6	+0.1	-
Managed Ord	318.2	335.0	+1.0	-
Blue Chip Ord	145.0	152.8	+0.1	-
Equity Ord	334.9	352.6	+0.7	-
International Ord	337.8	355.7	+0.8	-
Property Ord	254.5	268.0		-
Fixed Interest Ord	302.9	318.9	+0.2	-
Index-linked Ord	202.2	212.9	-0.1	-
Cash Ord	252.4	265.8		-
Building Society Ord	191.2	207.3		-
Americas Performance Ord	203.0	213.8	+2.5	-
Europe Performance Ord	117.0	123.3	+0.3	-
Far East Performance Ord	142.1	149.6	+0.7	-
Worldwide Performance Ord	155.3	163.6	+0.4	-

Sun Alliance Group - Contd.

CMI Insurance Co Ltd

Scottish Provident Intl Life Acs Ltd - Contd.

Guinness Flight Fd Mngrs - Contd.

Rothschild Asset Mngmt - Contd.

Morgan Grenfell Profunds Plc

MANAGEMENT SERVICES

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE

Dollar volatile on PPI

The US dollar was buffeted in volatile trade following the release of lower-than-expected US producer prices, *writes Conner Middelmann.*

Immediately after the announcement that the producer price index fell by 0.2 per cent in October - compared with market forecasts for a rise of 0.2 per cent - the dollar plunged half a pfennig as dealers felt that the inflation fears which have recently underpinned the dollar were overdone.

But the selling soon fizzled and the dollar staged a strong recovery in early New York trading as many traders covered their short positions. It closed in London at DM1.6950 - up from DM1.6850 the previous day - and is expected to test resistance at DM1.70 today.

"The move shows that people still want to have dollars and build up positions," said Mr Julian Callow, international economist at Kleinwort Benson. "The weakness after the PPI number was a good opportunity to buy dollars at a lower level."

However, while the long-term dollar uptrend is seen intact, some warn there could be a short-term retracement. "The risk of a correction comes from the fact that most of the buying has been by short-term, speculative accounts," said Mr Joe Prendergast, chief currency analyst with MMS International, the market analysis service.

Today's release of the October US consumer price index - expected to have risen by 0.3 per cent on the month - and Friday's retail sales data are expected to offer more clues to the dollar's direction.

The Canadian dollar was pressured by fears of rising federal deficits after a government official reportedly said that the 1992/93 deficit would total some C$37bn - above the C$35.5bn forecast - and that the deficit for the next fiscal year would rise to C$39bn-C$40bn, well above the C$32.6bn initially projected.

The Bank of Canada was rumoured to be intervening to support the currency, which nonetheless eased to C$1.3069 against the US currency in late London interbank trading, up from C$1.2980 early in the day.

Sterling weakened in the afternoon on stop-loss selling by technical traders and ended a relatively uneventful session near its day's lows against the D-Mark and the US dollar.

It closed at DM2.4900, down from DM2.4950 marks on Monday, and at $1.4685 compared to Monday's $1.4805.

The Japanese yen weakened against the dollar after the stock market staged another sharp sell-off and the Bank of Japan's rather generous open-market operation caused call money to ease slightly. After closing at Y107.63 in Tokyo, the dollar rose to Y108.15 in late London trading.

The Belgian franc was soft after news that Belgian trade unions had announced strikes over the country's social plan. It closed against the dollar around BFr36.20 in London compared with BFr35.85 on Monday.

£ IN NEW YORK

Nov 9	Latest	Previous Close
£ Spot	1.4690-1.4700	1.4805-1.4815
1 month	0.35-0.34pm	0.34-0.33pm
3 months	0.83-0.82pm	0.81-0.80pm
12 months	2.45-2.38pm	2.37-2.32pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Nov 9	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Dutch Guilder	2.19672	2.15211	-2.03	4.80	-
D-Mark	1.94964	1.91790	-1.63	4.37	-
Spanish Peseta	154.250	153.602	-0.42	3.10	3
Irish Punt	0.808628	0.809254	0.08	2.58	-1
Belgian Franc	40.2123	40.8079	1.48	1.17	-11
Portuguese Escudo	192.854	196.146	1.71	0.95	-11
French Franc	6.53883	6.67807	2.13	0.53	-18
Danish Krone	7.43679	7.63532	2.67	0.00	-18

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. (indicative values only. Divergence indicators are based on 15% band limits but do not show the 2.25% band between the Dutch Guilder and D-Mark.

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000; French Fr. per 10; Lira per 1,000; Belgian Fr. per 100; Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls December	Calls March	Calls June	Puts December	Puts March	Puts June
123	0.76	-	-	0.17	0.12	-
124	0.22	-	-	0.62	0.24	-
125	0.04	2.97	-	1.47	0.40	-
126	0.02	-	-	-	0.64	-
127	-	1.56	-	-	0.99	-
Open Int	204,403	90,506	480	178,097	80,126	850

Estimated volume 42,085 † Total Open Interest 554,484

† All Yield & Open Interest figures are for the previous day.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4685	1.4651	1.4602	1.4539	1.4440

BASE LENDING RATES

	%		%		%
Adam & Company	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
Allied Trust Bank	6	Exeter Bank Limited	7	●Rea Brothers	6
AIB Bank	6	Financial & Gen Bank	7	* Roxburghe Bank Ltd	6
●Henry Ansbacher	6	●Robert Fleming & Co	6	* (in administration)	
Bank of Baroda	6	Girobank	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	●Guinness Mahon	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	Habib Bank AG Zurich	6	Standard Chartered	6
Bank of Ireland	6	●Hambros Bank	6	TSB	6
Bank of India	6	Heritable & Gen Inv Bk	6	●United Bk of Kuwait	6
Bank of Scotland	6	●Hill Samuel	6	Unity Trust Bank Plc	6
Barclays Bank	6	C. Hoare & Co	6	Western Trust	6
Brit Bk of Mid East	6	Hongkong & Shanghai	6	Whiteaway Laidlaw	6
●Brown Shipley	6	Julian Hodge Bank	6	Wimbledon & Sth West	7
CL Bank Nederland	6	●Leopold Joseph & Sons	6	Yorkshire Bank	6
Citibank NA	6	Lloyds Bank	6		
City Merchants Bank	6	Meghraj Bank Ltd	6		
Clydesdale Bank	6	Midland Bank	6		
The Co-operative Bank	6	* Mount Banking	6		
Coutts & Co	6	* (in administration)			
Credit Lyonnais	6	NatWestminster	6		
Cyprus Popular Bank	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

German Repo eyed

German short-term interest rate futures firmed slightly as traders hoped for another small easing at the Bundesbank's allocation today of 14- and 28-day securities repurchase agreements at variable rates, *writes Conner Middelmann.*

Most dealers expect the lowest accepted repo rate to edge down between two and four basis points; according to a survey of German money market dealers by MMS International, the market analysis service, the minimum rate on both tranches is expected to drop by two basis points, to 6.37 per cent on the two-week tranche and to 6.38 per cent on the four-week tranche.

UK clearing bank base lending rate 6 per cent from January 26, 1993

Two tranches of repos totalling DM81.5bn expire today and many dealers expect the Bundesbank to make a small net liquidity injection.

The December three-month Euromark futures contract rose 0.02 point to 93.87 and the December contract was up 0.04 point to close at 94.58.

Further slippage in German money market rates is expected to facilitate more near-term easing among some of the country's neighbours whose currencies have recently appreciated against the D-Mark, notably France, Belgium and the Netherlands.

"They're all waiting for the next German rate cut," said Ms Alison Cottrell, European economist at Midland Global Markets. With the Dutch guilder trading at 112.2020 against the D-Mark and after last week's better-than-expected October inflation numbers, "the Dutch must go fairly soon," she said.

The Bank of France may be a little more cautious given its continuing need to replenish its foreign currency reserves. The December PIBOR future on MATIF eased 0.01 point to 93.57.

In the UK money market, the Bank of England announced an early shortage of some £1.7bn, later revised downward to £1.65bn. It did not operate in the early round, but allocated some £1.294bn at the midday operation. In the afternoon, the Bank purchased bills totalling £236m and provided late assistance of around £70m.

The sterling overnight interbank rate was unchanged on the day at around 6 per cent. December short sterling futures closed unchanged on the day at 94.49 while the March contract rose 0.01 point to 94.69, both trading on moderate volume.

FT LONDON INTERBANK FIXING

(11.00 a.m. Nov.9)	3 months US dollars		6 months US Dollars	
	bid 3⅜	offer 3½	bid 3⁷⁄₁₆	offer 3⁹⁄₁₆

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close November 9

INDICES

NEW YORK

DOW JONES	Nov 8	Nov 5	Nov 4	Nov 3	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3647.90	3643.43	3624.98	3661.87	3697.64 (2/11)	3241.95 (20/1)	3697.64 (2/11/93)	41.22 (2/7/32)
Home Bonds	106.00	105.89	106.98	108.14	109.77 (18/10)	103.49 (11/1)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1737.07	1717.87	1705.70	1724.08	1742.24 (1/11)	1453.64 (4/1)	1742.24 (1/11/93)	12.32 (8/7/32)
Utilities	227.13	227.25	226.40	231.68	256.46 (31/8)	217.14 (8/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Indl. Day's High 3674.17 (3663.83) Low 3621.91 (3585.89) (Theoretical♦)
Day's High 3660.75 (3643.69) Low 3634.49 (3600.67) (Actual♦)

STANDARD AND POOR'S

	Nov 8	Nov 5	Nov 4	Nov 3	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	460.21	459.57	457.49	463.02	469.50 (15/10)	429.05 (8/1)	469.50 (15/10/93)	4.40 (1/6/32)
Industrials¶	530.33	529.33	527.99	533.90	537.94 (2/11)	496.45 (26/4)	537.94 (2/11/93)	3.52 (21/6/32)
Financial	43.76	43.56	42.72	43.40	46.40 (3/9)	39.69 (8/1)	46.40 (3/9/93)	8.64 (1/10/74)
NYSE Composite	254.72	254.20	253.47	256.50	260.48 (15/10)	238.21 (8/1)	260.48 (15/10/93)	4.46 (28/4/42)
Amex Mkt. Value	476.60	475.33	477.53	481.70	484.28 (2/11)	395.84 (8/1)	484.28 (2/11/93)	29.31 (9/12/72)
NASDAQ Composite	788.21	782.99	787.26	772.96	787.42 (18/10)	645.87 (26/4)	787.42 (18/10/93)	54.87 (31/10/72)

	Oct 29	Oct 22	Oct 15	year ago (approx.)
Dow Industrial Div. Yield	2.77	2.79	2.81	3.21

	Nov 3	Oct 27	Oct 20	year ago (approx.)
S & P Industrial div. yield	2.41	2.42	2.20	2.68
S & P Ind. P/E ratio	28.61	28.51	28.48	27.52

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
RJ Nabisco	8,571,500	8⅛	+ ⅛
Merck	3,503,000	32	- ⅛
Telefonica	3,307,400	50⅝	- 1⅞
Wal-Mart	2,816,100	28¼	+ 1
Paramount	2,729,400	82	+ 1⅛
Philip Morris	2,451,200	54⅝	- ⅞
Amer Express	2,082,000	30⅝	- ⅛

TRADING ACTIVITY

† Volume Millions	Nov 8	Nov 5	Nov 4
New York SE	231.211	301.284	271.156
Amex	17.349	20.958	21.249
NASDAQ	(u)	335.380	327.877
NYSE			
Issues Traded	2,589	2,680	2,665
Rises	1,178	[illegible]	483

CANADA

TORONTO	Nov 8	Nov 5	Nov 4	Nov 3	1993 HIGH	1993 LOW
Metals & Minerals	3058.68	3028.93	3065.77	3065.27	3146.54 (1/11)	2743.31 (21/1)
Composite	4216.90	4202.03	4213.73	4244.74	4255.80 (29/10)	3275.80 (21/1)
MONTREAL Portfolio	2006.78	1994.29	2001.82	2022.05	2027.21 (1/11)	1720.97 (21/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation. ♦ Correction.

	Nov 8	Nov 5	Nov 4	Nov 3	1993 HIGH	1993 LOW
TAIWAN**						
Weighted Price (30/6/66)	4172.44	4196.62	4246.01	4260.86	5013.28 (7/4)	3098.43 (9/1)
THAILAND						
Bangkok SET (30/4/75)	1315.38	1308.91	1288.47	1284.99	1357.78 (2/11)	818.84 (1/6)
WORLD						
M.S. Capital Intl.(1/1/70) $	590.2*	593.5	590.7	596.4	607.10 (15/10)	486.60 (13/1)
Euro Top-100 (26/6/90)	1140.40	1134.50	1133.77	1161.05	1175.45 (22/10)	862.73 (12/1)

**Saturday November 6. Taiwan Weighted Price: 4221.60, base Dose Es: 783.17
¶ Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 20 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Tuesday, November 9, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	4.6m	317	-14	Fujitsu	2.7m	809	-6
Toshiba Corp	3.5m	683	-8	Kideo Kyodo	2.6m	448	+4
Sharp Corp	3.0m	1,520	-20	Nomura Securities	2.5m	1,800	-90
Sumitomo Mtl Min	2.9m	829	-28	Hitachi	2.4m	809	-22
NEC Corp	2.8m	903	-20	Mitsubishi Heavy	2.4m	641	-10

4 pm close November 9

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14⅝	11½	AAR	0.48	3.5	693	133	14⅛	13¾	13⅞	
29⅞	13¼	A L Labs A	0.18	1.2	30	1588	15	14½	15	
67¼	54⅝	AMP	1.60	2.6	22	1835	62¾	61½	62⅝	+1⅛
72¾	55½	AMR			54	3451	70¾	69⅛	69⅞	-⅞
3⅞	1¾	ARX			12	105	3⅝	3⅝	3⅝	-⅛
51½	29⅞	ASA	2.00	4.1	32	656	48⅞	47⅝	48⅝	+1
30¾	22⅝	AbbtL	0.68	2.4	17	6952	28¼	27⅞	27⅞	-¼
12⅝	8¼	Abitibi Pr	0.50	4.8	8	13	10½	10⅝	10½	
16⅝	8¼	Acclaim			45	82	14¾	14½	14½	
35	25½	ACE Ltd	0.92	3.1		926	30⅝	30⅛	30⅛	-⅛
12	10⅝	ACM Gvt In	0.96	8.2		1380	11⅞	11⅝	11¾	
10⅛	9⅛	ACM GvOpp	0.80	8.3		552	9⅞	9½	9⅝	-⅛
10	8⅝	ACM Gvt Sp	0.80	8.0		708	u10⅛	10	10	+⅛
11⅝	10½	ACM Gvt Sc	0.96	8.3		3287	u11⅝	11⅜	11⅝	+¼
11¾	9⅝	ACM Man	1.08	9.3		334	u11⅞	11⅝	11⅝	-⅛
9⅞	6⅝	ACM Managd	0.72	7.8		67	9¼	9⅛	9¼	+⅛
12⅞	7¾	AcmeClv	0.44	4.5	13	51	9¾	9½	9¾	+⅛
11⅞	6⅛	Acme Elect			38	130	9	8⅞	8⅞	-⅛
27⅞	18⅞	Acordia	0.44	1.9	13	11	23⅛	23⅛	23⅛	-⅛
18	10⅞	Acuson			62	350	14	13¼	13¾	-⅛
21⅞	18⅛	Adams Expr	0.48	2.5	8	87	19⅛	19	19⅛	+⅛
68¼	45½	Ad Micro	3.00	6.2		247	48⅝	48	48⅝	-⅛
32¾	17⅞	AdvMc	3.00	15.8	7	3632	19⅝	18¾	18⅞	
8⅛	5½	Advest Grp	0.16	2.2	12	135	7¼	7⅛	7⅛	
24¾	14⅛	Advo Inc	0.08	0.5	73	148	16⅛	15⅝	15⅝	-⅛
51¾	41⅛	Aegon ADR	1.23	2.4	10	21	50⅝	50½	50⅝	-⅛

Continued on next page

4 pm close November 9

NYSE COMPOSITE PRICES

Continued from previous page

1993 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
24⅝	16⅞	Safeg'd Sc			11	313	u25¾	24¼	24½	
24¾	13¾	SftyK	0.36	2.6	20	1422	13⅞	13⅝	13⅝	+⅛
22¾	10⅞	Safeway			27	1278	22½	22¼	22¼	+¼
5¾	2	SafewayW96				332	u5¼	5⅛	5⅛	+⅛
55	37½	StJoePaper	0.20	0.4	148	38	50½	50¼	50⅜	
37⅞	31	StJoeL&P	1.76	5.4	13	62	32¾	32⅝	32¾	
98	75	StPaul	2.80	3.1	14	552	90⅞	89	89¾	-½
11⅞	7¼	Salant Crp			4	38	7¾	7⅜	7⅝	
75¾	39⅞	Sallie Mae	1.20	2.7	9	1520	45	44	44⅝	+⅛
14⅞	13	Salomon Br	0.92	2.3		642	14⅛	13⅞	14	
51⅞	34	Salomn	0.64	1.5	10	2885	45⅛	43⅝	43⅞	-⅜
27¾	23¾	SnDgGE	1.48	6.0	13	420	25	24⅝	24⅝	
5	3½	SantaFeEDu	0.40	8.2	48	10	4⅞	4⅞	4⅞	
11⅞	9⅛	SantaFeERe	0.16	1.6	325	1147	10	9¾	9¾	
40¾	35¾	SantaFePac	2.80	7.3	18	47	38½	38	38½	+½
19⅞	12¾	SanFeP	0.10	0.5	7	2891	19⅝	19⅛	19⅛	+⅜
31⅛	21	SaraLee	0.56	2.2	18	3415	28⅝	28⅛	28½	-½
52¼	40⅛	Scana Corp	2.74	5.6	13	265	49¼	48⅝	49¼	+¾
25¾	20	Scecrp	1.42	6.9	14	7471	21	20⅝	20⅝	-⅛
38⅞	23⅞	ScherrRP			26	351	32⅝	32	32⅝	+⅞
71	61¾	SchrPl	1.80	2.6	17	4834	69⅞	69⅛	69⅝	+⅞
68⅞	55⅛	Schlmb	1.20	2.0	24	3359	61⅝	61⅛	61½	+⅜
38⅞	18½	Schwab(C)	0.20	0.6	16	7873	34½	32¾	33⅝	+1⅛
7¾	6⅝	Schwitzer			90	18	7	7	7	
30⅞	17¾	SciAtl	0.12	0.4	61	1886	33⅞	33½	33¾	+⅛
[illegible]	[illegible]	[illegible]	0.10	0.8	12	2	12⅝	12⅝	12⅝	+¼
41	31	ScottP	0.80	2.2	22	1001	37	36⅞	36	-⅞
28⅞	14¼	ScuddrNAsF	0.21	0.9		67	23⅞	23½	23⅞	+⅛
11⅛	7½	ScuddrNEuF	0.16	1.6		149	10⅛	9⅞	10	
31½	16¾	SeaCnB	0.70	3.7	9	76	18¾	18	18¾	+½
17	15	SeaC1.A625	1.46	9.4		22	15⅞	d15	15½	-½
30⅝	24½	Seagrm	0.56	2.0	18	2096	28	27⅝	27⅝	-¼
32⅞	15	Seagull En			49	282	28⅛	27⅞	27⅞	+⅛
30⅝	21	Sealed Air			22	73	28½	28½	28½	+⅛
60⅛	42⅝	SearsR	1.60	2.8	34	4342	58¾	57¼	57½	-⅞
13¾	12⅝	Seligm Sel	0.84	6.2		28	13⅝	13½	13½	-⅛
48¾	30	Sensormat	0.30	0.6	32	576	48⅝	48⅛	48⅝	+⅛
34½	18	SequaA	0.60	1.9	18	80	31½	30¼	31	+⅞

[illegible]

AMEX COMPOSITE PRICES

4 pm close November 9

[illegible]

NASDAQ NATIONAL MARKET

4 pm close November 9

[illegible]

AMERICA

Inflation news helps to support the Dow

Wall Street

SHARE PRICES saw modest gains across the board at mid-session, supported by good inflation news and sharply lower bond yields, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was up 10.62 at 3,658.52. The more broadly based Standard & Poor's 500 was 2.04 higher at 462.25, while the Amex composite was up 0.49 at 477.09, and the Nasdaq composite up 6.79 at 772.94. Trading volume on the NYSE was 171m shares by 1 pm.

Stocks rose from the opening bell, buoyed by a sharp rise in Treasury prices – the benchmark 30-year issue was up more than a point in early afternoon trading and the yield was down to 6.118 per cent – and good news on inflation, which was the driving force behind the bond market's gains.

The latest inflation data showed that the producer prices index fell by 0.2 per cent in October.

Analysts had been expecting a small increase in the PPI.

There was even better news in the form of the "core" measure of the PPI (which excludes the volatile food and energy components), which fell by 0.5 per cent last month.

The surprisingly positive inflation figures not only lifted bond prices, but also helped allay whatever fears equity investors might have had that the Federal Reserve would be forced to put up interest rates to prevent a resurgent economy from reigniting inflation.

Share prices would have risen higher on the inflation news, however, but for growing concern among investors about the fate of the North American Free Trade Agreement.

The vice-president was due to debate with Nafta opponent Mr Ross Perot on US television last night, and the markets remained worried that congress might not vote to ratify the treaty next week.

News that RJR Nabisco is putting up cigarette prices by 4 cents a pack raised hopes that the cigarette price war is over and boosted tobacco stocks. RJR rose $⅛ to $6⅞ in volume of 3m shares, Philip Morris put on $1⅛ at $55⅞ and American Brands firmed $⅛ to $33⅞.

AT&T rose $⅛ to $56½, helped by an upgrade from NatWest Securities, which raised its rating on the stock from "accumulate" to "buy" citing price reasons.

Another upgrade lifted Banc One $1⅞ to $37⅞ in active trading, as Smith Barney Shearson put out a buy recommendation on the banking group's stock.

Good quarterly earnings helped Wal-Mart gain $⅝ at $28⅞ and The Limited put on $⅜ at $30⅞.

Motorola rose $2⅛ to $100⅞ on the news that it has purchased a 20 per cent stake in Nextel, the mobil communications service provider. Nextel climbed $4⅞ to $50⅞ on the Nasdaq market.

Canada

TORONTO built on early gains to show a strong midsession rise with across-the-board gains helped by lower interest rates.

The TSE-300 composite index was 29.30 higher at 4,245.75 in turnover of C$367.5m.

Among the actives Royal Bank Canada was off C$⅛ at C$26⅞.

ASIA PACIFIC

Tokyo falls 3% as profits are taken in JR East

Tokyo

THE Nikkei average fell nearly 3 per cent following heavy institutional selling of JR East and further negative news about the economy, *writes Emiko Terazono in Tokyo.*

The 225-issue index tumbled 499.45, or 2.7 per cent, to 18,125.71, having seen the day's high of 18,661.67 in the morning, before losing ground steadily throughout the session to register a low of 18,048.50 in the last hour of trading.

Volume increased to 322m shares from the 242m registered on Monday. Declines overwhelmed advances by 937 to 100, with 116 issues unchanged. The Topix index of all first section stocks dropped 39.05, or 2.5 per cent, to 1,531.28. In London the ISE/Nikkei 50 index eased 1.24 to 1,236.80.

Large-lot heavy selling of JR East by corporate shareholders depressed sentiment, the shares closing Y28,000 down at Y451,000. Earlier in the day, Mr Hirohisa Fujii, the finance minister, told a parliamentary committee that the government had not made any mistakes in the listing. The shares have lost nearly 25 per cent since trading began on October 26.

Banks were dragged down by Topix-linked arbitrage selling, with Industrial Bank of Japan shedding Y120 to Y3,220, Mitsubishi Bank losing Y120 to Y2,950 and Fuji Bank declining Y120 to Y2,260.

High-technology stocks were weak on profit-taking: Toshiba slipped Y8 to Y683, Sharp declined Y20 to Y1,520 and Hitachi retreated Y22 to Y803.

Investors also took profits in large-capital issues, and Nippon Steel, the day's most active issue, relinquished Y14 at Y317 and Mitsubishi Heavy surrendered Y10 to Y641.

In Osaka, the OSE average declined for the sixth consecutive day, losing 463.57 to 20,301.24 in volume of 17.8m shares.

Roundup

WITH A few exceptions the region's markets reflected the heavy decline in Tokyo.

SEOUL, however, took its own path and saw its highest level since October 1990, with investors particularly active in large-capitalisation stocks. The composite index climbed 4.73 to 780.20 in turnover of Won1,020bn.

HG Asia in London commented that the market's recent rise was partly due to the fact that it had lagged behind recent gains elsewhere in the region. In addition, they said, good data showing an expansion in exports from the car, semi-conductor and steel sectors had boosted enthusiasm for equities.

There were also rumours that the timetable for increasing the limit of foreign investment, from 10 to 15 per cent, might be brought forward, with domestic investors already taking positions in those stocks that are likely to be favoured by overseas institutions.

Samsung Electronics went limit-up, rising Won1,600 to Won50,200, and Hyundai Motor hit its daily upper limit of Won1,300 to close at Won33,400.

HONG KONG was weaker as investors turned cautious after Tokyo's plunge. The Hang Seng index was finally 89.48 off at 9,088.47 after swinging between a high of 9,273.17 and a low of 9,059.14.

NEW ZEALAND regained 2 per cent after Monday's sharp fall, but the market remained nervous in the current uncertain political situation.

The NZSE-40 index finished 43.79 better at 2,090.59.

With the final election result not due to be known until the weekend – votes from nationals living overseas have yet to be counted – volatility is expected to remain.

AUSTRALIA eased on afternoon selling, the All Ordinaries index dipping 3.4 to 2,050.8. Turnover amounted to A$408.3m.

BHP shed 4 cents to A$17.20 and, among the banks, NAB fell 10 cents to A$12.40.

SINGAPORE closed lower after volatile trading, with the Straits Times Industrial index 15.50 down at 2,053.30.

Singapore Telecom gained 8 cents at S$3.90 ahead of its announcement, after the market closed, of an 18.8 per cent rise in half-year earnings.

TAIWAN was lower for the fifth trading day in a row amid persistent profit-taking after the recent rally. The weighted index had rebounded slightly at the opening but soon fell to finish 23.38 off at 4,172.44. Turnover was a fairly active T$37.78bn, against Monday's T$38.88bn.

Sentiment was cautious due to the approach of the November 27 local government elections, but selling was not heavy on the view that the government would not allow the market to post sharp falls before the polls.

KUALA LUMPUR saw an early rebound interrupted by Tokyo's fall, but the composite index still closed 16.14, or 1.75 per cent, higher at 937.66, after a day's peak of 944.89.

The index had fallen 55.54 points over the previous two trading days on forced selling caused by margin calls.

COLOMBO continued to attract heavy speculative demand, which took the all-share index ahead 24.21 to 870.73 for a three-day rise of 8.9 per cent. Turnover was also sharply higher at SLRs208.8m from Monday's SLRs114.9m.

Twin boost for Euro-insurers in 1993

Portfolio gains and rate increases have combined impressively, writes Richard Lapper

Investors who spotted the potential of European insurance shares towards the end of last year have seen their holdings appreciate impressively over the past 12 months.

Shares in some companies, such as Germany's Aachener & Münchener (AMB), have almost doubled, and across the Continent insurance issues have outperformed local stock markets.

Between September 15, 1992 and November 5 this year, insurance shares have risen by 57 per cent, a gain of 13.2 per cent relative to the FT-Actuaries Europe index as a whole, according to figures produced by BZW Securities.

Since the end of June, insurers have continued to outperform, registering a 14.4 per cent rise compared to a relative gain of 2.5 per cent.

Italian and French companies led the way earlier this year but, over the last four months, German, Swiss and Dutch insurers have performed more powerfully, with the prices of German companies up by more than 30 per cent since the end of June.

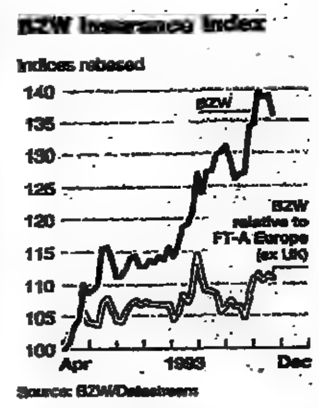
Third-quarter figures released recently by NatWest Securities show that insurance stocks in three smaller territories also performed well, with prices up by 17.2 per cent in Spain, 28.2 per cent in Sweden, and 25.7 per cent in Finland.

Investment arithmetic has been one important factor. Falls in interest rates have increased the value of bond portfolios, and insurers have also benefited from increases in the value of their equity and property investments.

Mr Bob Yates, an analyst with Fox Pitt Kelton, explains that since insurers hold large amounts of equities, property and bonds in their technical reserves, their portfolios tend to be "highly leveraged".

In addition, however, insurers have also been helped by rises in premium rates following two to three years of heavy claims from theft and fire.

BZW Insurance Index



Source: BZW/Datastream

In most countries, rates for both personal insurances – such as home and motor – and commercial lines have risen.

Mr Tom Bennett, an analyst with Banque Paribas Capital Markets, points to Germany, where motorists, especially in the eastern German states, are facing rises typically of 50 per cent. Commercial buyers, too, are facing increases.

"Virtually every day the newspapers are full of reports, with companies squealing about their rates going up. This has to be good news for insurers," says Mr Bennett.

Mr Angus Runciman, an analyst with BZW Securities, says the hardening in rates has been an important factor in Scandinavia, where insurers have been forced to take tough action to restore the strength of their balance sheets, following the turmoil in local stock markets last year.

"The region now comes close to offering a competitive vacuum," says Mr Runciman, who predicts that rating discipline should be maintained there longer than anywhere else in the region.

Reinsurers – such as Germany's Munich Re and Switzerland's Swiss Re – have been helped by a hardening in international reinsurance markets, where rates have risen and terms tightened for high level catastrophe covers.

However, the currently bullish trend for insurers may have a limit. Mr Runciman also suggests that "the likelihood of lower interest rates will sooner or later result in reduced streams of investment income".

There are fears, he says, that having repaired their balance sheets some companies, especially the French, will be prepared to forgo further premium rate increases in favour of raising market share.

"It is worrying," he concludes, "that even before the publication of [their] 1993 results, there are already suggestions that rates have risen sufficiently and it is time once again to focus on market share."

EUROPE

Milan slides on decline in telecoms sector

BOURSES remained nervous at the beginning of yesterday's session, but expectations of further consolidation in German stocks were not borne out at the end of the day, *writes Our Markets Staff.*

On the credit side, bargain hunting lifted Paris after last week's losses, and unexpectedly low producer price inflation figures from the US gave sentiment a boost in the afternoon.

MILAN was unnerved by a sharp early fall in Sip, the domestic telephone operator, and the Comit index finished 10.22 or 1.8 per cent lower at 546.58.

Sip was briefly marked down 10 per cent in early trading before picking up to finish L156 or 4.7 per cent lower at L3,140. Stet, the state holding company, lost L170 or 4.4 per cent to L3,699.

Mr Roberto Condulmari of Giubergia Warburg commented that the sector appeared to have been depressed by reports that AT & T was seeking a pact with French and German telecommunications groups, and that Italian companies were not involved, together with EC pressure on the Italian government to speed the granting of a licence to a second mobile telephone operator.

However, Mr Condulmari doubted that this was enough to account for Sip's sharp early fall, which he thought was more likely to be the result of an error in pricing a block of 50,000 shares which were offered by a brokerage.

FRANKFURT's DAX index fell to 2,005.82 during trading, the third session in a row where the blue chip indicator had dropped to within a few points of the 2,000 level. However, it recovered to close 12.02 higher at 2,022.83, and the Ibis indicated Dax rose further to 2,040.74 by the end of the post-bourse.

Ms Barbara Altmann at B Metzler in Frankfurt said that after the DAX held again above 2,005, some funds bought futures, and then the impetus moved into the cash market. The reason was a rally in the bond markets in both the US and Germany following the US PPI figures.

Turnover rose from DM7.4bn to DM7.8bn. Ms Altmann said that, just as stock did not appear when the market was falling early in the day, there was no really big buying during the recovery after hours. Short covering, she said, was having more effect on share prices.

ZURICH bounced higher, the SMI index adding 51.8 or 1.9 per cent to 2,727.1, with an already positive tone improved by Wall Street's firm opening.

Mr Frederick Hasslauer of Bank Oppenheim in Zurich said that strong foreign demand had re-emerged from the US, Britain and Germany for blue chip issues at their lower levels after the market's recent correction.

Chemical stocks, hard hit last week, were among the main gainers. Roche certificates added SFr170 or 3 per cent to SFr5,900, matching their record close. Sandoz added SFr150 or 4.1 per cent to SFr3,850 and Ciba-Geigy bearers were SFr20 higher at SFr825.

Motor-Columbus added SFr95 or 6.5 per cent to SFr1,550. Kleinwort Benson, rating the stock a buy, commented last week that the group's radical restructuring was set for completion six months ahead of schedule, in mid-1994, and the process was driving a financial turnaround, with the company now refocused on its energy business. Kleinwort valued the new Motor Columbus stock at SFr2,020, which implies a rise of 30 per cent from current levels.

PARIS was also boosted by the release of US data after languishing without much enthusiasm at the opening. The CAC-40 index finished up 28.10 or 1.3 per cent at 2,112.89. Turnover was a moderate FFr[illegible].

There was interest in stocks which have been adrift of recent general gains, while LVMH was helped FFr10 higher to FFr3,551 after Remy-Cointreau, up FFr8.90 to FFr210.40, announced better-than-expected first half figures.

UAP put on FFr15 to FFr[illegible], helped by the appointment of a new chairman in the lead up to privatisation, as well as favourable brokers' reports.

AMSTERDAM strengthened on good rises in major issues and in spite of a further decline in Akzo which shed Fl 4.80 to Fl 180.20. The CBS Tendency index put on 0.2 to 135.0.

The speciality chemicals group closed just above its placing price of Fl 180 which was announced in the morning. Akzo has announced that it will place the new shares with a total value of some Fl 1.3bn to finance its acquisition of Nobel Industries of Sweden.

Unilever remained strong ahead of results later this week, the stock attracting buy recommendations in the meantime, and it closed Fl 4.30 stronger at Fl 216.00.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

November 9 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1337.04	1337.31	1338.53	1340.44	1339.95	1343.73	1346.07	1345.87
FT-SE Eurotrack 200	1399.59	1399.23	1399.72	1400.91	1398.86	1402.22	1403.03	1405.41

	Nov 8	Nov 5	Nov 4	Nov 3	Nov 2
FT-SE Eurotrack 100	1337.43	1337.58	1365.93	1381.11	1382.36
FT-SE Eurotrack 200	1395.82	1399.44	1429.45	1442.07	1444.39

Base value 1000 (26/10/90) High/day: 100 - 1347.02; 200 - 1407.05 Low/day: 100 - [illegible] 200 - [illegible]

Written and edited by William Cochrane, John Pitt and Michael Morgan.

SOUTH AFRICA

JOHANNESBURG was pressured by volatility of the financial rand and a fall in the price of gold bullion. The gold shares index slipped 4 to 1,886, the industrials index lost 18 to 4,547 and the overall index weakened 23 to 3,997.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY NOVEMBER 8 1993 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY NOVEMBER 5 1993 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1993 High	1993 Low	Year ago (approx)
Australia (68)	155.62	-1.9	155.84	106.29	136.33	154.43	-1.2	3.35	158.70	158.28	108.49	139.57	156.38	162.83	117.39	114.78
Austria (17)	175.21	+1.4	175.46	119.67	153.49	153.20	+0.3	1.03	172.77	172.32	118.11	151.94	152.76	184.47	131.16	139.19
Belgium (42)	151.75	+0.0	151.96	103.64	132.93	134.18	-0.8	4.29	151.68	151.28	103.68	133.33	135.22	156.76	131.19	134.84
Canada (107)	134.26	+0.1	134.45	91.69	117.61	126.00	+0.2	2.65	134.19	133.83	91.73	118.00	125.73	134.34	111.41	115.47
Denmark (32)	240.89	+0.9	241.23	164.53	211.02	219.43	+0.2	1.03	238.74	238.11	163.21	209.95	218.93	241.08	185.11	187.27
Finland (23)	122.65	-1.2	123.12	83.88	107.71	148.07	-2.0	0.71	124.43	124.11	85.07	109.43	151.03	128.99	65.50	69.40
France (98)	162.29	+0.5	162.51	110.83	142.15	149.24	+0.2	3.11	161.43	161.01	110.35	141.95	148.90	173.05	142.72	146.44
Germany (60)	130.33	+0.1	130.51	89.02	114.17	114.17	-0.2	1.86	130.14	129.80	88.98	114.45	114.45	131.59	104.23	[illegible]
Hong Kong (55)	368.40	+2.1	368.92	251.61	322.74	366.47	+2.1	2.99	360.77	359.82	246.63	317.28	357.90	386.88	218.82	254.86
Ireland (14)	174.80	-0.2	175.05	119.39	153.13	174.87	-0.5	3.21	175.18	174.71	119.76	154.05	175.68	177.89	129.28	125.16
Italy (70)	64.68	+0.0	64.77	44.17	56.66	79.40	+0.1	2.10	64.67	64.50	44.21	56.86	79.35	79.93	[illegible]	[illegible]
Japan (469)	147.94	+0.4	148.15	101.05	129.62	101.05	+0.3	0.81	147.36	146.98	100.74	129.61	100.74	165.91	100.75	100.86
Malaysia (69)	456.58	-3.3	456.21	311.14	399.08	448.55	-3.2	1.53	470.96	469.75	321.97	414.18	[illegible]	[illegible]	251.06	282.42
Mexico (18)	1794.32	-2.3	1796.86	1225.53	1571.86	6180.72	-2.2	0.80	1837.01	1832.18	1255.84	1615.48	6320.71	1857.70	1410.30	1498.62
Netherland (25)	194.08	-0.1	194.35	132.56	170.02	167.64	-0.3	3.27	194.33	193.82	132.85	170.90	168.21	197.07	150.39	159.27
New Zealand (13)	61.75	-4.5	61.84	42.18	54.10	60.28	-4.7	3.76	67.77	67.59	46.33	59.60	64.58	68.36	40.56	38.57
Norway (22)	177.40	-0.3	177.66	121.17	155.42	176.44	-1.0	1.45	177.98	177.49	121.66	156.50	178.22	185.10	137.71	131.36
Singapore (38)	306.35	-2.5	306.78	209.24	268.37	224.96	-2.3	1.12	307.74	306.93	210.38	270.63	228.20	332.55	207.04	185.81
South Africa (60)	202.72	-4.8	203.01	138.46	177.59	202.94	-0.3	2.66	212.87	212.31	145.52	187.20	202.26	218.72	144.72	140.13
Spain (42)	138.45	+0.6	138.64	94.56	121.29	141.65	-0.4	4.17	137.63	137.26	94.09	121.03	141.03	[illegible]	[illegible]	[illegible]
Sweden (36)	195.02	-0.4	195.28	133.19	170.84	238.11	-0.4	1.42	195.98	195.37	133.97	172.33	238.01	[illegible]	[illegible]	[illegible]
Switzerland (50)	145.61	+1.4	145.82	99.46	127.58	134.01	+0.9	1.62	143.54	143.26	98.20	126.33	132.86	148.16	108.91	108.64
United Kingdom (218)	186.49	-0.7	186.16	126.97	161.96	186.16	-0.3	3.86	186.20	185.71	127.28	163.73	185.71	193.97	162.00	162.78
USA (519)	187.30	+0.1	187.56	127.93	164.08	187.30	+0.1	2.76	187.05	186.56	127.88	164.50	187.05	191.56	175.38	171.13
Europe (750)	156.94	-0.1	157.17	107.19	137.49	150.85	-0.1	3.00	157.03	156.62	107.35	138.10	151.04	162.97	133.92	131.85
Nordic (114)	188.99	-0.2	189.25	129.08	165.56	197.27	-0.5	1.24	189.42	188.92	129.49	166.57	198.23	194.54	142.13	144.49
Pacific Basin (714)	155.95	+0.2	156.17	106.51	136.62	110.60	+0.2	1.08	155.57	155.16	106.35	136.81	110.38	166.80	105.89	106.34
Euro-Pacific (1464)	156.25	+0.1	156.47	106.71	136.87	126.72	+0.1	1.86	156.07	155.66	106.68	137.24	126.63	162.88	117.26	116.89
North America (626)	183.55	+0.1	184.24	125.68	161.20	183.09	+0.1	2.75	183.75	183.26	125.63	161.62	182.86	187.68	171.51	167.87
Europe Ex. UK (532)	138.77	+0.4	138.97	94.80	121.59	130.46	+0.0	2.46	138.27	137.91	94.55	121.82	130.49	143.73	112.81	113.02
Pacific Ex. Japan (245)	233.48	-0.7	233.81	159.49	204.58	216.03	-0.4	2.74	235.03	234.41	160.70	206.71	218.85	245.13	152.70	160.10
World Ex. US (1650)	157.04	+0.0	157.26	107.27	137.58	129.04	+0.0	1.90	157.02	156.61	107.35	138.09	129.03	163.71	122.13	[illegible]
World Ex. UK (1951)	164.32	+0.1	164.55	112.24	143.96	143.38	+0.1	2.05	164.09	163.66	112.18	144.32	143.21	168.66	134.22	132.15
World Ex. So. Af. (2109)	166.00	+0.1	166.23	113.39	145.43	145.85	+0.1	2.22	165.83	165.39	113.37	145.84	145.64	170.46	137.29	134.89
World Ex. Japan (1700)	177.61	-0.1	177.86	121.32	155.61	173.75	-0.0	2.82	177.76	177.29	121.53	156.34	173.77	181.67	157.47	153.99
The World Index (2169)	166.14	+0.1	166.37	113.48	145.55	147.15	+0.1	2.22	166.04	165.61	113.52	146.03	147.03	170.68	137.32	134.81

Latest prices were unavailable for this edition.

High hopes for an upgrade in credit rating

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FINANCIAL TIMES SURVEY

MEXICO

Wednesday November 10 1993

PRESIDENT Carlos Salinas would probably have wanted it another way. As he ends the fifth year of his six in office, the Mexican economy is showing only sluggish growth and his efforts to secure a free trade agreement with US and Canada depend precariously on the US Congress.

The North American Free Trade Agreement, which was to guarantee continuity in economic policy and thereby cement Mexico's stability, has so far only succeeded in creating uncertainty. The treaty has been identified with the president so profoundly that its loss would be a severe personal blow.

"President Salinas bet the store on Nafta," says Mr Jorge Castañeda, an academic and a critic of the government, writing in the latest issue of Foreign Affairs, "and if passage is his triumph, rejection or delay is his defeat."

But just as Nafta's passage would be no panacea for Mexico's economic ills, its collapse – while significant – would not necessarily be disastrous. Good macroeconomic management – a hallmark of the Salinas presidency – has lowered the budget deficit and inflation and increased foreign exchange reserves, all of which should cushion the economy from the worst of the shocks.

If Nafta does fail, however, prospects for growth will be diminished in the short and medium terms. Interest rates would probably have to rise – hurting growth – to ensure that capital flows stayed intact in the immediate aftermath of a defeat. In the medium term, foreign direct investment and other flows would likely be lower, suggesting a slower growth track.

Government officials say their immediate reaction to Nafta's failure would be to allow interest rates to take the strain, and that they are contemplating no devaluation to speed up growth. Still, big speculative outflows could endanger this outcome and in any case no government advertises devaluations in advance.

Mr Salinas denies that he has overemphasised Nafta and says his administration's other reforms show it is "not the only thing going on in Mexico". Apart from the agreement with the US, Mexico is also negotiating trade pacts in other parts of the world and expects next year to join the Organisation for Economic Co-operation and Development.

If Nafta fails, Mr Salinas says, however, that the chances of another agreement "would be out for several generations". After more than three years of negotiations, and following the uncertainty over the treaty generated by the US recession and the change in administration, he adds: "We have learned that the worst moment to negotiate a trade agreement is during a recession and an election."

So close to the United States: the bright lights of Monterrey's Eugenio Garza Sada Avenue are reminiscent of US cities (above), while in Mexico City (right) a poor child helps to supplement his family's meagre income by juggling at traffic lights

Reform awaits its reward

President Salinas denies he has overemphasised the North American Free Trade Agreement, although he is depending on its passage . But Nafta is no panacea for the economy. Stephen Fidler reports

The treaty's defeat would affect next year's presidential campaign. Slower growth would weaken the government by leaving in doubt the overall success of its economic policies. Meanwhile, a nationalist backlash could well hurt relations with the US and put pressure on the presidential candidate of the ruling Institutional Revolutionary Party (PRI), which has held power for more than six decades.

While the PRI will continue to have significant advantages over the opposition in the elections, its ability to rig the vote has been constrained – some political observers say to an important extent – by electoral reforms pushed through in the Salinas presidency. "With the new rules for the election, it makes a different range of scenarios possible from those we have seen in the past. I don't believe it will be possible to manufacture elections as in the past. It's not a perfect reform but if it applies next year, it does imply clean elections," says Mr Federico Estevez of ITAM, a private university in Mexico City.

Not everybody agrees: the left-wing opposition Democratic Revolutionary Party (PRD) has criticised the reform, calling attention to the predominance of PRI officials on the supposedly independent electoral commissions running the ballot at federal and state level. Its candidate Mr Cuauhtémoc Cárdenas describes the changes as "a backward step".

With the right-wing PAN opposition not viewed as having a strong presidential contender for 1994, the anti-government protest vote is likely to coalesce around Mr Cárdenas. This suggests that the elections will again be criticised, after the fact, as fraudulent by the opposition. The closer the result is – and it is widely assumed that Nafta's rejection will aid the opposition – the more these complaints would resonate. This would again raise questions – as they were raised by Mr Salinas's victory in 1988 – about the legitimacy of the administration.

"For a democratic election to occur, all major parties in a country must accept the process and respect the results," said a report from the Carter Centre of former US President Jimmy Carter last month. "Mexico has not yet reached the point where that is the case."

Thus, in a continent of elected governments, Mexico's continues to be coloured by allegations of electoral fraud and authoritarianism. The uncertainty generated by the election – even when most people assume they know who will win – indicates not the strength of its authoritarian system but its weakness.

The power of the Mexican executive was also once commonly seen as a help in pushing through unpopular economic reforms in the early stage of the reform process. If that were ever the case, there is increasing doubt about it now. Some econ

Continued on page 10

IN THIS SURVEY

Editorial production: Roy Terry
Pictures: Page 1, Monterrey, Douglas Engle; other pictures by Keith Dannemiller

Stephen Fidler finds that after the economic reforms, growth has begun to slow down

The miracle seems to have faded

THE Mexican economic miracle is looking less miraculous of late. The government can claim success in the battle against inflation: it should fall to 8 per cent or less this year from around 12 per cent last year. It has also managed to reverse the worrying growth of the current account deficit – from $22.8bn in 1992 it should fall to around $20bn this year.

But this has come against a background of slowing economic growth. After three years in which the economy expanded by more than 3 per cent, growth slowed to 2.6 per cent last year and to under 2 per cent this year, falling short of population growth for the first time since the election year of 1988.

Next year, thanks in part to a modest fiscal stimulus, the government is forecasting growth of 3 per cent. But this forecast looks at risk if the North American Free Trade Agreement is not ratified. Without the treaty – and assuming no big devaluation – higher interest rates will almost certainly bog down the economy.

Seven years of economic reform then have yielded some results: President Carlos Salinas this month emphasised that investment had increased in his administration – from 17 per cent of GDP in 1988 to 22 per cent in 1992 – and that labour productivity had gone up by 19 per cent in the last three years.

But there has been no take-off in growth. Some economists suggest this is a matter of time. Growth has been slow, they suggest, because of the rate in which the old capital stock has been destroyed by the opening of the economy since 1985 to the world markets.

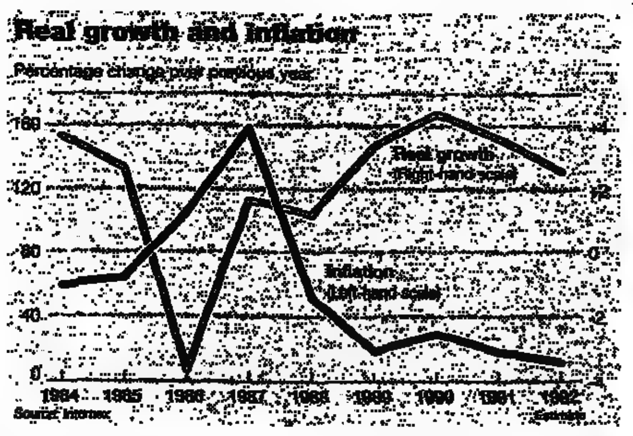
"The process of reform has been more profound than previously estimated. That means that the economy was more inefficient before than anybody imagined – including the private sector," said Mr Guillermo Ortiz, under-minister of finance.

While some economists argue that the rapid exhaustion of the country's old productive base may suggest that the trade liberalisation was too rapid, others place more emphasis on what the government has not done rather than what it may have done too quickly. There remain, says this group, significant bottlenecks to growth. These include poor infrastructure and a deregulation process which has yet to reach the state and local government level. They also blame a rigid labour market, a corrupt and inefficient judicial system which does not allow the enforcement of contracts and, above all, the high cost of bank credit.

One pro-reform official argues that fundamental reform of the state-run electricity sector and the railroads is needed in the next six-year administration. The social security system is "a time bomb for the next six years." He adds: "If the labour market is not deregulated, social security and health is not dealt with and infrastructure is not improved, we will have problems."

Seven years of economic reform have yielded some results, but no take-off in growth

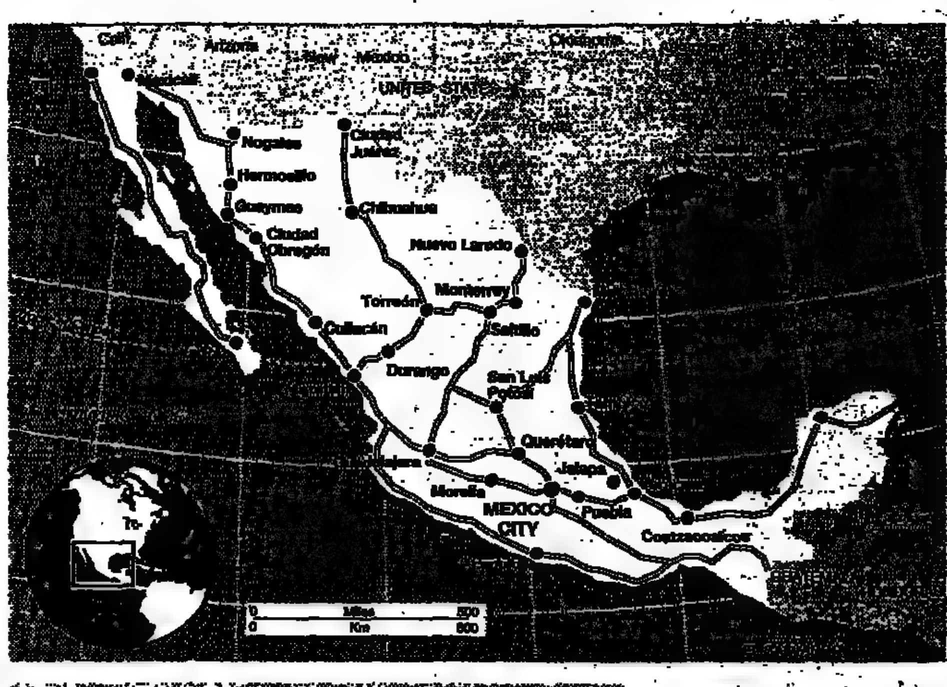
Whatever the case, the weakness of the economy in the face of reasonably high levels of investment – at least until this year when uncertainty surrounding Nafta inhibited it – coupled with insufficient levels of domestic savings, means Mexico will continue to depend heavily on foreign capital for some time to come. That being so, the room for manoeuvre in macroeconomic policy in the next administration will not be large, since international investors can be expected quickly to react adversely to economic policy of which they disapprove.

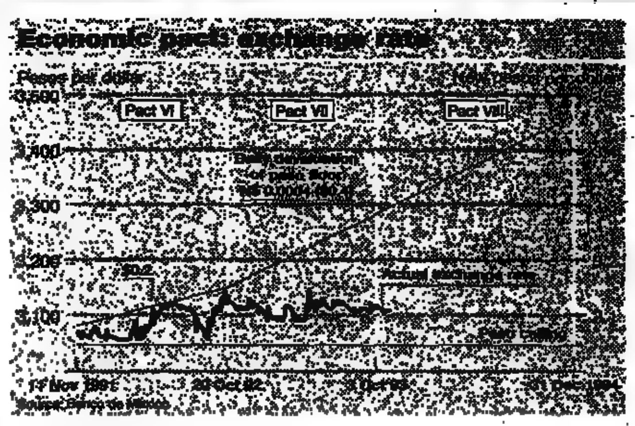


The growth slowdown has other causes, slow world growth being one. From this perspective, some officials argue that Mexico's private sector performance looks less weak. Non-oil exports growing at an annualised 15 per cent in the first half of the year compared with world export growth of 0.2 per cent. Meanwhile, imports grew at an annualised 7.4 per cent rate. This has helped to bring down the current account this year, although some officials say that, if next year's higher growth materialises, the current account may again widen.

Lower inflation may also have had an impact on business. Inflation has fallen faster than many businesses expected. This has left companies paying higher salaries than justified by inflation and has increased the real rate of interest which they are paying for credit. This has squeezed profitability and led them to reduce production. "This was the first time in many years in which it proved costly to many companies not to believe the government's forecasts," says one government economist.

The slowdown was worsened further by the behaviour of the banks. Not only did high real rates of interest curb borrowing, but at the end of March, says one monetary official, many banks in effect stopped lending to the private sector – so they could repair the damage caused by bad debt problems. Since the first quarter, interest rates have fallen faster than inflation, with interbank rates falling from 23 per cent in February to below 16 per cent.





With interest rates falling and companies now accustomed to lower inflation, the government is expecting the economy to pick up in the fourth quarter of this year. This should be helped, officials say, by the modest fiscal stimulus agreed in the annual pact between the government, business and the trade unions.

This year's pact has several novel features: it brings down the annual salary increase to 5 per cent for next year, but allows for settlements above that in cases where productivity justifies it. Minimum salaries will rise by the same amount, but a negative income tax will raise take-home pay by close to 17 per cent for those on the minimum wage.

The fiscal stimulus will come with the government's plan to balance its budget next year. This year the fiscal surplus was forecast at 1.7 per cent, but is now likely, say officials, to turn out at around 1.1 per cent, with part of the difference accounted for by lower oil prices. "Because of the surplus, we'll be able to stimulate the economy without having to worry about inflation," says Mr Ortiz of the finance ministry.

If fiscal policy has been conservative, monetary policy has – says the central bank – been neutral: with an exchange rate target, it can do little but accommodate the demand for money. Although growth in the monetary base has been a modest 4.8 per cent in the year to August, below inflation, the central bank says changes in the cheque clearing system at the end of March suggest the monetary base has effectively grown close to 10 per cent.

However, to some observers, monetary policy looks tight and for good reason: the government is anxious to avoid the kind of speculative attack on the peso that will force its hand on the exchange rate. "One way to kill speculation is to dry up liquidity," said Rogelio Ramírez de la O, of the economic consultancy Ecanal. The central bank has done this and has continued ensure that technically speculators cannot attack the peso by selling it short. Short selling implies the selling of a currency by those who do not own it.

The exchange rate has been essentially stable since the start of the year within a band which widens daily. At the end of this year, the permitted fluctuation will be 3.1 per cent. The exchange rate, widely considered to be overvalued, is in many ways the Achilles heel of the government's steady-as-she-goes economic policy in an election year. It looks to some economists particularly vulnerable if Nafta is not passed.

The exchange rate has been essentially stable since the start of the year

Officials say they are determined to avoid the financial crises in their last year of office that plagued the previous three administrations. And they say (as they obviously would) that they will not use a deliberate exchange rate depreciation to stimulate the economy. "We'd rather have zero growth and no devaluation than 3 per cent growth and a devaluation," says a senior government advisor.

To help it withstand a speculative attack, the government also has foreign exchange reserves of record levels – $23.02bn at end-October – which exceed the monetary base. Officials also say that the maturity of the peso-denominated debt held by foreigners has lengthened in the past two years – implying greater capital losses for those who wish to sell assets to attack the peso.

Officials point out that the current account deficit remains more than financed by capital inflows, as shown by rising foreign exchange reserves and falling market interest rates. If the financial markets are getting nervous about the failure of Nafta, there is as yet no obvious sign of it.

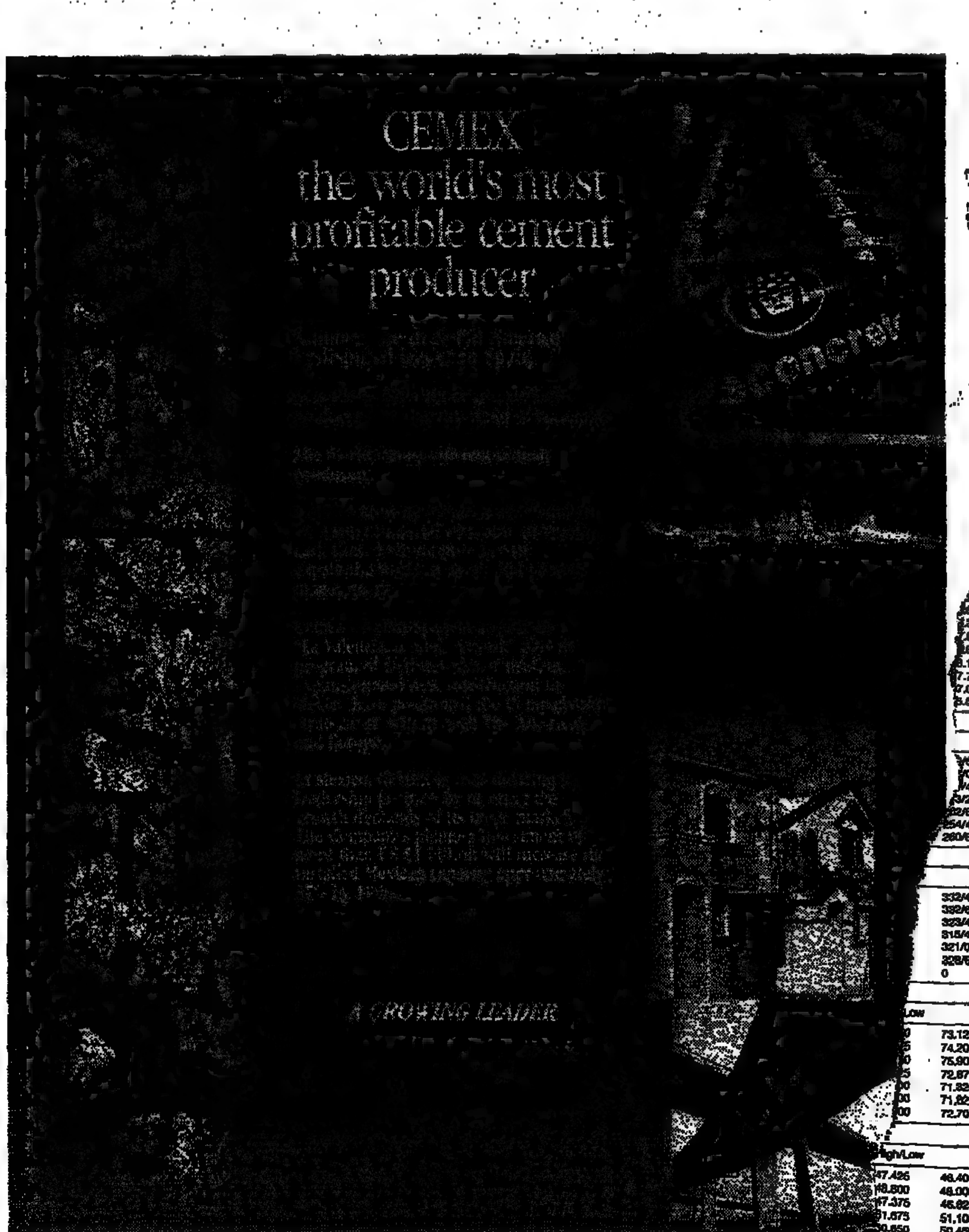
KEY FACTS

Area	1,958,201 sq km	
Population	89.54 million	
Head of state	Carlos Salinas de Gortari	
Currency	Mexican new peso	
Average exchange rate	1991 $1=3.0164 new pesos	
	1992 $1=3.0949 new pesos	

ECONOMY	1991	1992
Total GDP ($bn)	286.6	333.5
Real GDP growth (%)	3.6	2.6
Components of GDP (%)		
Private consumption	71.7	n.a.
Total investment	22.4	n.a.
Government consumption	9.0	n.a.
Exports	13.9	n.a.
Imports	-17.0	n.a.
Annual average % growth in		
Consumer prices (%)	22.6	15.5
Wholesale prices (%)	20.5	13.4
Ind. production (%)	4.1	3.1
Man. production (%)	3.9	2.7
At year end		
Money market rate (%)[1]	19.8	23.5
Official foreign reserves ($m)	17,726	18,942
Stock market cap. ($m)[2]	37,621	45,046
Growth in share prices (%)[3]	145.1	21.5
Trade		
Current account balance ($m)	-13,785	-22,811
Exports ($m)	26,855	27,516
Imports ($m)	38,184	48,193
Trade balance ($m)	-11,329	-20,677
Main trading partners (%)[4]	Exports	Imports
US	74.5	70.7
Canada	5.5	0.8
Japan	4.1	6.0
France	1.5	2.3
Germany	1.5	5.2
Spain	3.1	1.3
UK	0.6	0.1
EC	8.6	12.6

1 Fourth quarter average; 2 FT-A market capitalisation, December 31; 3 Annual % increase FT-A local currency price index, December 31; 4 Percentage share of trade in 1991

Sources: Datastream, IMF



Stephen Fidler examines the obstacles faced by companies in Mexico

Putting the bite on business

WHEN AN Iranian-born Briton claimed in February that he had been asked for a bribe to secure a Mexican air traffic control contract, he unleashed a storm of controversy. Mr Kaveh Moussavi, who said he was asked for a bribe while acting as agent for IBM, was condemned by the Mexican government and ministers as soon as his allegations appeared in the Financial Times.

While it is clear that Mr Moussavi informed IBM at the time of an encounter with three Mexican officials seeking a bribe in Mexico City's Nikko Hotel last November, his allegations have not been proved. On the other hand, Mr Moussavi says they have received only perfunctory investigation by the Mexican government. Certainly, Mr Moussavi was condemned by government ministers as a liar before an investigation could have been carried out.

The controversy raised a number of important questions over the extent to which corruption and the country's judicial system – widely said to be inefficient, corrupt and arbitrary in its decision-making – are obstacles to doing business in Mexico. As such, the Moussavi affair has become one of the issues that opponents of the North American Free Trade Agreement have used to attack the treaty.

In reality, US multinationals such as IBM are usually sufficiently well-connected politically to achieve redress for any real or imagined wrongs. Mr Moussavi – who has since reached an "accommodation" with IBM not to criticise the company – has himself pointed out: "If this is the trouble the government can give to a $72bn corporation, God help the smaller companies."

If these issues are problems for foreign companies – and if Nafta is passed, corporations from the US and Canada will at least have a right to redress through the treaty's disputes procedures – they are potentially devastating for smaller Mexican companies. While deregulation of the economy at a federal level has reduced some of the obstacles to these enterprises, they are still often faced with obstructive and corrupt officialdom at lower levels. Even newly-privatised industry is often unhelpful: the traditional bribe – known as the "mordida" or bite – is still often necessary to ensure timely repairs of telephone lines, for example.

There are groups within the Mexican government who agree that the judicial system and the consequent lack of ability to enforce contracts is a serious weakness of the Mexican economy: the reform of the legal system is considered by the finance minister and presidential candidate, Mr Pedro Aspe, among others, as a reform priority for the next administration.

Indeed, the travails of small- and medium-sized companies are of more than peripheral importance to the Mexican economy. Mr Rafael Rangel, of the Monterrey Institute for Technical and Higher Studies, estimates such enterprises are responsible for 80 per cent of Mexico's industrial production.

These companies are also, he says, poorly equipped to deal with the technological and management challenges posed by the opening of the Mexican economy. It is a theme echoed by Mr Luis Rubio, of the Centre of Investigation for Development in Mexico City. "There is still an enormous abyss between those companies that have understood what's going on and those that have no idea how to adjust to it. They have a lack of access to good information. There are perhaps 120,000 to 130,000 companies in the country, many of which are going to die needlessly. That doesn't mean they should be subsidised; just that they they should be allowed access to information."

These and other issues coalesce into what is the main problem facing most Mexican companies: high interest rates and a lack of access to credit. The government has transformed Nacional Financiera, the state development bank, from a source of government funding to a provider of credit to the private sector. But loans remain expensive – with real interest rates well into double digits – and scarce. Only big companies with access to international capital markets can circumvent the problem.

It is clear that the privatisation of 18 banks has not been enough to secure competition in the provision of bank loans. However, the government is taking further steps to inject more competition into the banking system: cutting withholding tax on interest payments to banks abroad and trying to establish a market in mortgage securities. Here again, the lengthy and uncertain legal procedures required for lenders to gain access to collateral in Mexico may inhibit such developments.

It is not only in banking where questions of competition arise. The administration has left the state electricity monopoly untouched, and electricity prices are high. Where it has privatised, the government has been skilful at extracting the best price possible for state companies industries but at a cost, some say, of concentrating economic power into relatively few hands. This increases the importance – for small businesses, distributors and consumers – of ensuring effective redress for the abuse of monopoly power.

The law aimed at ensuring competition is probably one of the most advanced in the world, encapsulating the distinction now made by economists between size per se – the old definition of monopoly – and monopolistic behaviour. Mr Santiago Levy, president of the new Federal Competition Commission and the man who framed the law, says: "The link between performance and structure is more elaborate than has been generally understood. You can't infer that more concentration is necessarily bad. What is important is the behaviour of businesses, not so much the size of the firms. What the law is looking for is efficiency and competitive markets; in other words that prices are as close as possible to costs."

The law distinguishes between what is illegal per se – such as bid rigging – and issues for which a "rule of reason" should apply. These latter issues would include, for example, restrictive agreements between producers and distributors. In investigating these, the commission must first define what the relevant market is – for example, cotton shirts, shirts or clothing. It must then decide that the company complained of has substantial power in this market, which will involve a close investigation of the market structure.

Mr Levy reckons more competition in some sectors – including communications, transport and financial services – would be beneficial. "Particularly in non-tradeable sectors, we think a more vigorous competition policy could be useful."

Along with the central bank, now being made independent, the competition commission is one of two new government institutions that will transcend the presidency. Commissioners will sit for 10 years – although in the first place their terms will be staggered to ensure one of the five is rotated every two years.

Still, the incorporation of best practice in the law is no guarantee that it will be followed. Mr Levy knows that to gain credibility his organisation will have to show its teeth. That will mean not only issuing effective judgments against the government's enemies and those with little political influence, but also against those with huge influence in the corridors of power.

Line repairs: more competition in communications would be beneficial

Nancy Dunne explains the US procedures for approving Nafta

Vote deadline is November 17

THE North American Free Trade Agreement, the most controversial US trade agreement since the second world war, has now entered the shadowy world of the Congressional fast track where legislative procedures are turned on their heads, a bill is not a bill, a conference not a conference, and legislation to implement trade agreements is born.

The fast-track procedure mandates an up or down vote on the "implementing legislation", thus evading deal-killing amendments designed to benefit special interests. Unlike a treaty, which requires a two-thirds senate vote for passage, fast track gives the responsibility of approval to a majority in both houses.

The only hope for getting a trade pact through Congress without amendments is to ensure a majority vote in advance.

This is achieved through a pre-approval negotiating process between the administration and the Congress. Representatives of both essentially write the implementing legislation together.

Work on the "non-bill" that will become the implementing legislation begins first in committees – the House Ways and Means Committees and the Senate Finance - which have primary jurisdiction over trade. Other committees with jurisdiction – like banking and agriculture – will also hold hearings.

After holding hearings, Ways and Means and Finance each write a "non-bill", in consultation with the administration and other committees. This process, ordinarily called a "markup", to produce bills, is called a "mock up".

The "non-bill" makes changes in current law necessary for the implementation of trade agreements, provides for financing mechanisms and changes tariffs. It could also include the administration's interpretation of unclear portions of the trade pact. Other trade legislation can be attached.

There is talk about adding a "Super 301" provision to the Nafta in order to attract wavering Democrats. Super 301 requires the administration to negotiate away foreign trade barriers (or use sanctions if the trading partners baulk).

The committees take their non-bills to a House-Senate "mock conference" where they iron out their differences and most of the changes are made. Mr Richard Daley, the administration's "Nafta czar", will be hard at work, making back-room deals in exchange for member votes.

The result then goes to the president, who has a free hand with the "non-bill". He can tear it up, alter it, or submit it to Congress for fast-track action, at which point it becomes a bill.

The bill can no longer be changed. It must be voted on in no fewer than 90 legislative days (days in session). The House committees have 45 days to debate its merits before it moves on to full House debate for 15 days. If it loses here – which may well happen – that is the end of the process.

If it passes, it goes on to the Senate, where the committees have 15 days to debate and vote and the full Senate has 15 days. Both houses must schedule 20 hours of floor debate.

The president has asked Congressional leaders to accelerate the process in order to get a Nafta into effect on January 1, as scheduled. Mr Tom Foley, the House speaker and Nafta supporter, has scheduled a floor vote for November 17.

There is considerable speculation about whether or not the vote will go forward on schedule. The White House and Congressional leadership have vowed that it will. A senior Senate aide said that the administration wants to get the issue "over and done with" to make way for more popular issues such as health care and crime legislation. "Members don't want to go home and talk about it any more," he said. "The administration won't pick up votes by waiting."

Others say the administration has been forced to take a tough line on the Nafta schedule to stem the flow of defecting Republicans and Democrats, who are afraid a pro-Nafta vote will hurt them in their districts. They will not want to support the bill if they think the president might delay it or pull it for re-negotiation.

But will the leadership act if a Nafta loss seems probable? November 17 is less than a month before the December 15 deadline for the Uruguay Round.

There is concern that a failure of Nafta in US Congress would discourage politically-risky concessions in the Gatt talks, particularly if as expected, Mr Ross Perot, the Texas billionaire, comes out in opposition to the Gatt and promises to fund a fight against its passage.

Banking: rationalisation is the theme, says Ian Rodger

Profit, but little joy

MOST BANKS in Europe are either already enjoying or anticipating enjoying the impact of lower interest rates on their basic business.

Austrian banks are in the first category, having already had a taste of wider spreads as the Austrian National Bank has dared for some months to push a step ahead of the German Bundesbank in lowering rates.

Profits of Bank Austria (BA), the country's largest bank, jumped 51 per cent in the first half, to Sch2.01bn, while those of Creditanstalt soared 77 per cent to Sch2.3bn.

Both banks made clear that the gains had to be seen against extremely depressed results last year, and that the profit surge came mainly from trading activities, but they were nevertheless optimistic for significant improvement in the year as a whole.

In spite of this pleasant outlook, there is not much joy in Austrian banking circles these days. Rather, a pall of unfinished business hangs over the scene, leaving a certain amount of anxiety in the boardroom of nearly every major bank.

Rationalisation has been the key theme in Austrian banking for several years. The country has a ridiculous number of bank branches, one for every 1,340 residents. However, for a long time, most banks were well armed with hidden reserves and state backing, and so could afford to take a fairly relaxed attitude to the hard decisions that had to be taken.

Now, after huge losses in foreign misadventures and, more recently, domestic losses, the big banks are coming to the end of their reserves, and the government wants to sell out. Smaller savings banks, too, are under pressure from nervous local authorities to throw in their lot with larger groups.

The main focus in the past year has been on Bank Austria, the country's largest bank following its creation in November 1991, from the merger of the city of Vienna's Zentralsparkasse savings bank group and Länderbank.

BA realised from the start that it had to close about 50 of its 407 branches, but it has had to proceed cautiously because of trade union sensitivities. It has also had immense problems trying to integrate the computer systems of the two banks, and faces a huge provision to cover the costs of the old Zentralsparkasse pension obligations. By a quirk of history, Zentralsparkasse employees were not included in the otherwise universal state pension system.

Analysts reckon that by the time these matters are settled in two or three years, BA will have completely used up its roughly Sch6bn in hidden reserves.

Another area of tension is the country's large savings bank sector. The problem here, paradoxically, is that rationalisation has proceeded so quickly that it has altered the balance of power in the system.

In the mid-1970s, there were over 170 savings banks, and each had a relatively small stake in their large central clearing organisation, Girozentrale. As a result, Giro could dominate the organisation and pursue its wholesale banking business as it saw fit.

In the 1980s, the two largest savings bank groups, Zentralsparkasse and Erste Oesterreichische (First Austrian), bolstered by a landmark court judgment facilitating the sale of savings banks by local authorities, went on acquisition sprees.

Bank Austria realised from the start that it had to close about 50 of its 407 branches

The result today is that only 80 savings bank organisations remain, and Zentralsparkasse, now part of Bank Austria, and Erste together control over half of the shares of Giro, since renamed Girocredit.

Being large universal banks in their own right, Bank Austria and Erste have no need of a clearing organisation like Giro and tend to see it as a competitor, particularly in capital markets business.

Not surprisingly, Giro has squirmed uncomfortably under these new constraining forces, and has tried various strategems to force its two largest shareholders to sort the situation out.

The main proposal, first made three years ago, was that Bank Austria should sell out of the savings bank sector, and that Erste and Giro should merge. A first round of negotiations in the summer of 1991 collapsed in mutual recrimination, and a second attempt is now at a sensitive stage.

It now seems clear that Bank Austria will sell its 31 per cent stake in Giro. The problem is: who will buy it, and at what price? BA put down a marker, when it sold the stake at the end of last year to an affiliate, in order to crystallise capital gains to cover loan losses, at a self-determined price of Sch400 per share. This would indicate a value of Sch16.4bn for the whole bank.

That is perhaps a bit on the high side, even though Giro's profit performance has improved substantially this year. But any reasonable price would be beyond the ability of Erste alone to pay. Its total assets at June 30 this year of Sch184bn were significantly less than Giro's Sch330bn at the same point.

Moreover, Erste is at best a diffident buyer. It has carved out a successful niche in retail banking, and is nervous about making its life more complicated.

Hence, an effort is being made to form a consortium that would include the other largish savings bank groups from provincial capitals. But it all takes time.

"The 20 key people in the savings bank sector are beginning to understand. Now they have to tell 60 others and get their supervisory boards to agree," an Erste director explains.

Ownership and control are also live issues at Creditanstalt. The bank's proud patrician management has been eager for several years to rid itself of state control.

The government cut its capital stake from 60 per cent to 49 per cent several years ago, but it still holds 70.5 per cent of the votes. Last year, as its own budgetary problems mounted, it became more eager to sell, and in November, it emerged that negotiations on the sale of a 20 per cent stake to General Electric of the US had taken place.

These apparently came to naught, and in the spring an attempt was made to merge the bank with the very large Raiffeisen group of co-operative banks, with Raiffeisen buying the government's stake.

Creditanstalt's management balked at this project, and the government agreed that it was not a sensible solution. Since then, as a result of the sharp rise in the CA share price this year, there has been much talk of floating the government's shares in the market.

That is clearly the wish of the bank's management, which would rather not be faced with another strong controlling or influential shareholder. Mr Ferdinand Lacina, the finance minister, is not convinced that it is the best solution.

"Their interest is not necessarily the same as ours," Mr Lacina says.

The stock market reformers have moved fast

A helping hand for equities

FEW STOCK markets have given investors as rocky a ride as Austria's in recent years. A sparkling bull run in 1989 and early 1990 was followed by three years of slump, with the all-share index losing over half its value in the period from January 1990 to January 1993.

This year, the market has bounced back, but many investors remain suspicious of the uptrend, given the still weak economic outlook for the country.

In part, the Austrian market's high volatility reflects its small capitalisation and the relatively small proportion of most companies' shares that are freely available for trading. It suffices for a couple of big UK or US institutions to adjust their overall weightings for Austria by a point or two to move the whole market.

But there have also been many structural problems – a lack of active domestic institutional investors, a tax system that discriminates against equity securities and inadequate investor protection provisions.

In mid-1991, when the market was showing no signs of emerging from its long decline, Austrian leaders decided that enough was enough. Within a short time, a strategy committee was formed under the personal leadership of Mr Ferdinand Lacina, the finance minister, and containing representatives from all interested groups. "This was deliberate. We wanted to break up the old bankers' club image," one official, working on the committee, says.

By any measure, the committee has moved with remarkable speed on several fronts. Among the more important measures taken to date:

■ An amendment to the Stock Exchange Act was passed in the spring, making insider trading a criminal offence. This came into effect on October 1. Mr Lacina has since said that he will outlaw the use of anonymous bank accounts for securities transactions by the end of this year. This move is a prerequisite to the effective investigation of suspected insider dealings.

Meanwhile, leading banks and brokers have drawn up and adopted a standard compliance code for handling price-sensitive information. This is a particularly important measure, because trading in securities in Austria is dominated by the same three large universal banks that dominate the new-issue and corporate-lending businesses.

The Vienna Börse will soon have screen-based trading Tony Andrews

For their part, quoted companies are being pressed to adopt fair and timely procedures for disclosing their accounts and other information likely to have an impact on their share prices.

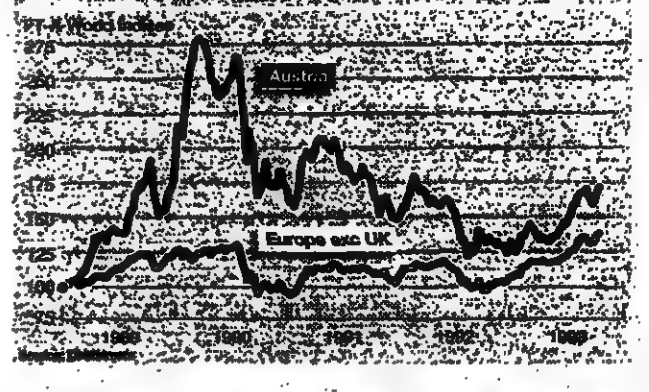
■ A series of capital market-friendly tax reforms was agreed in May, and will come into force at the beginning of next year.

A wealth tax, which discouraged entrepreneurs from taking their companies public, is to be abolished, as is an irritating trade tax. The stock exchange turnover tax will be abolished with respect to securities lending.

Individuals are given special incentives to invest, the most important being an annual tax-free allowance of Sch10,000 invested in equities. Taxation on income from securities and bank savings accounts will be equalised at 22 per cent. Previously, income from securities was more highly taxed.

■ The Vienna Börse itself has taken a number of steps to make trading more efficient and transparent, and more are on the way. In July, daily trading hours were extended by one hour, and a computerised analytical data base has been set up to promote the equal dissemination of information.

A screen-based trading system is scheduled for installation late next year, and the exchange is encouraging companies to simplify their equity structures so that the market in their shares is more liquid.



The exchange is eager to improve, because of the danger of more trading activity leaking out to the SEAQ market in London. Already five of the largest Austrian quoted companies – Creditanstalt, EVN, OMV, Wienerberger and Verbund – are quoted on SEAQ, and analysts estimate that nearly a fifth of trading of their shares is done in London.

The two big outstanding issues for the committee are the establishment of an overall market supervisory body and the stimulation of institutional participation.

The government tried to promote institutional participation four years ago, by raising the proportion of their funds that insurance companies could put into equities to 30 per cent. But these companies have remained extremely cautious about exercising their new freedom, and so far have only about 6 per cent of their funds in equities. Analysts agree that they are unlikely to change until the cosy Austrian insurance market becomes part of the European Community market, forcing them to try to get better performance from their funds.

Pension funds are virtually non-existent in Austria, because the government's (unfunded) universal pension scheme covers about 80 per cent of requirements.

As for an Austrian securities and exchange commission, everyone agrees that there is a need for such a body, but Mr Lacina, for one, is worried about using a sledgehammer to crack a nut. "We do not want an over-bureaucratic system," he said in a recent interview.

The reform process suffered a serious blow last spring with the death of Mr Helmut Haschek, chief executive of the Austrian Control Bank (OeKB), the clearing house for the Börse.

However, Mr Johannes Attems, another OeKB director, says anxieties about the loss of Mr Haschek's drive and influence on the process are misplaced. "Once you get a critical mass of things moving, then the whole process gains momentum and cannot be reversed," Mr Attems says.

He adds that government leaders understand the urgency of reform.

"We are going to have some $100m - $150bn in privatisation projects in the next five years in Europe. Private capital has to be attracted.

"We in Austria are competing with other capital markets. If we want the large Anglo-Saxon institutional investors in our market, then we have to adopt their rules, make it easier for them and provide better opportunities for them than elsewhere in Europe.

"We also have to tell the Austrian investor that he should invest more in equities, and not just Austrian equities."

Ian Rodger

The media

Cable bypasses the monopoly

A COUNTRY like Austria, which lives in the shadow of a much larger country that shares the same language, is bound to have trouble maintaining its national media.

Technological advances and economic liberalisation have made it almost impossible to protect a national media, but the government goes on trying.

Austria is one of the last countries in Europe with a state broadcasting monopoly. Neither private television nor radio stations are allowed, and the Austrian Broadcasting Corporation (ORF) has a government mandate to air quality documentaries as well as important cultural events.

This has made two-channel ORF perhaps the most respected German language television group, but not the most profitable.

In the newspaper sector, most of the papers that were backed by political parties have recently folded, but the government is still spending more than Sch200m a year to subsidise a handful of dailies with smaller circulations.

Even so, the days of a distinctively national media appear numbered, whether Austria joins the European Community or not.

Through the growth of cable television, more than half of Austrian households can watch German TV channels, including the popular commercial stations like SAT 1 and RTL.

And in recent years, German newspaper concerns, looking for an opportunity to invest excess cash, have bought large stakes in some of the largest Austrian publishing groups.

It all started in the mid-1980s with a quarrel between the co-owners of the largest tabloid daily, the Kronenzeitung. Hans Dichand was looking for someone to buy out his long-time partner Kurt Falk for Sch2bn, and finally found Westdeutsche Algemeine Zeitung (WAZ), a large German newspaper chain.

WAZ then went on to invest in Kurier, the second-largest daily, which also owns several important magazines. This created the media group with the highest market share anywhere in Europe.

Other German media groups jumped in. Axel Springer Verlag, in 1988, helped launch the Standard, which soon became the country's largest quality daily, and took stakes in other newsprint products. As many papers are currently losing money, they depend financially on their German sugar daddies.

Even bigger changes are happening in the electronic media. Standing on the verge of EC membership, Austria knows that it cannot maintain the ORF monopoly for long. But the legalisation of private broadcasting has been stymied by a battle over influence and ideology between the two main political parties, the Social Democrats (SPO) and the conservative People's Party (OVP).

The Social Democrats, who dislike commercial television, want to permit a private channel to co-exist next to the two ORF channels. Conservatives argue that the advertising pie is much too small to support three Austrian channels. So they want ORF to spin off its second channel to private investors, a move strongly opposed by the ORF leadership.

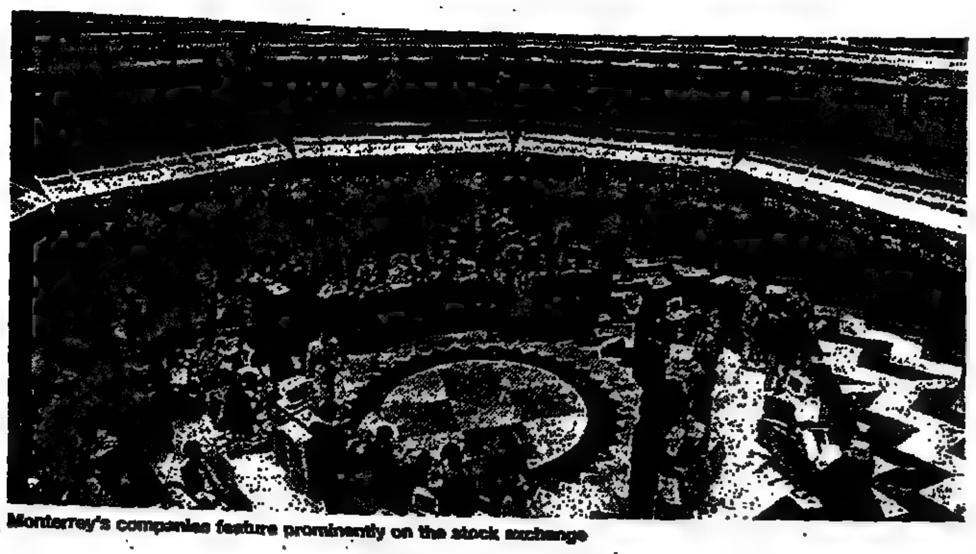
Meanwhile, a power struggle has begun at ORF following the retirement of veteran chairman Gerd Bacher. Strong-willed and politically aware, Mr Bacher had improved ORF's financial fortunes by cutting costs and boosting the state-regulated advertising revenues.

His successor, however, will have to do more to guarantee the group's survival amid growing competition. He will have to cut down on the vast bureaucracy and curtail political interference in personnel decisions and content.

A law permitting private radio stations will finally come into effect next year, but its terms are controversial. Foreign participation will be limited to 25 per cent, and most of the new stations are likely to be controlled by the large newspaper groups and quasi-governmental institutions, thus increasing the already high concentration of media power.

The small independent radio stations that set up across the border in neighbouring countries and broadcast into Austria are likely to fold.

Eric Frey



Monterrey's companies feature prominently on the stock exchange

THE PRESS

Newspaper's capital move

MONTERREY boasts not just Mexico's leading companies, but by common repute, the country's most profitable and best-run newspaper, El Norte.

El Norte reads and looks more like a Texas newspaper than one from Mexico. It is printed in colour, makes liberal use of photographs and graphics, and contains about eight sections a day, all thick with advertisements.

News articles are generally brief and the style is plain, while the editorial line is pro-market and pro-business. The offices in the centre of Monterrey are sleek and modern, and everything, from writing to editing to graphics, is done on computers.

The paper is proud of its independence from government, and takes delight in exposing fraud in elections. Unlike many journalists in Mexico City, El Norte reporters do not accept money from departments they cover, do not work on commissions for the advertising departments, and are paid a reasonable salary.

The owners of El Norte are now about to publish a Mexico City newspaper, with an initial investment of $50m, which they say will bring to the capital the same standards that have helped the Monterrey newspaper's morning circulation rise to certified 145,000. The paper, to be named Reforma, will come out on November 20, the day Mexico celebrates its 1910-20 revolution.

The paper is proud of its independence from government

Mr Alejandro Junco, publisher and (with his family) the owner of El Norte, believes there is a tremendous business opportunity for a new newspaper in Mexico City, with readership levels about one eighth of those in Monterrey. The paper, he says, will be similar to El Norte, and carry sections on local issues, consumer products, real estate, food, as well as standard ones on sport and business.

The project has already raised questions in Mexico City about whether a commercial, brash approach to news and culture will go down in the capital, which likes to think of itself as a little more civilised than compatriots in the north, and less consumer-orientated.

Mr Raymundo Riva Palacio, an editor of the independent daily El Financiero, says: "El Norte is effective in the society of Nuevo Leon, but you cannot translate this to Mexico City. The reader in Mexico is more sophisticated, more interested in international affairs, his knowledge of arts is more profound. He demands longer articles and more political analysis than that offered by El Norte."

Mr Junco contends that existing Mexico City newspapers are so concerned about developments in politics and the bureaucracy that they lose sight of the middle-class concerns of their readers. He believes that the paper's independence and objectivity will gain readers, and claims to have lined up some top-rate political columnists to increase the paper's appeal to a Mexico City readership.

Mr Riva Palacio questions whether Reforma will be able to maintain its independence as effectively in Mexico City as El Norte does in Monterrey. "It's one thing being told off by the minister of interior in the state of Nuevo Leon, another by the minister of interior for the whole country," he says.

Reforma's ability to withstand commercial and possibly political pressures received a blow several months ago when the Dow Jones company, publisher of the Wall Street Journal, pulled out of talks to acquire a 49 per cent stake in the newspaper. The negotiations failed after Dow Jones insisted on the right to buy out or be bought out by its partner in the event of a disagreement, a condition Mr Junco refused.

Mr Junco still hopes to use Dow Jones news for coverage of the US and international financial news, and the two companies may reach some agreement on sharing advertising revenues in the Mexico City-based newspaper.

The entry of Reforma promises to shake up the Mexico City newspaper industry, which is already going through heavy restructuring. Mexico City boasts more than a dozen mainstream daily newspapers, but most have circulations well under 100,000. The majority survive only thanks to subsidies from their owners or from the government.

In a largely successful effort to manipulate the press, Mexico's state and federal government departments pay heavily for advertisements that appear as news articles, advertisements that serve no obvious purpose, and often subsidise salaries of journalists through the monthly *embute* (envelope) of cash. Such practices ensure ample coverage of favoured political leaders, but may explain why newspaper readership is so low.

However, some government departments are now cutting back subsidies, reducing generous printing contracts, and are putting an end to the practice of *embutes*. Private sector advertising is falling as a result of the economic slowdown, and almost all newspapers are feeling the pinch.

In a sign of the economic difficulties of the press, the government recently put up for sale the state-owned El Nacional newspaper, but found no-one willing to meet the modest reservation price. Several other newspapers are now up for sale and La Jornada, the favoured paper of the leftist intelligentsia, is seeking a capital increase.

Other newspapers are seeking foreign partners to help them out in the battle for readers and advertisers. La Prensa, Mexico's top selling tabloid daily, was recently sold to a group of investors that include Mr Jesus de Polanco, Spain's most powerful media baron. The US media group Capital Cities/ABC has just bought Mexico's largest business magazine, Expansion.

Even competitors concede El Norte has an edge over southern rivals in selling advertising and distribution. Mr Junco says with some pride that Reforma will be the world's first newspaper with "flexible manufacturing". A reader can, if he wants, customise his newspaper to receive two copies of the section on sports and no copy of the section on food and drink, or whatever.

Damian Fraser

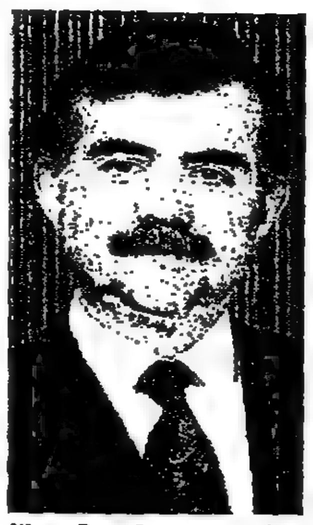
PULSAR

Burning desire for new markets

PULSAR'S chairman and founder, Mr Alfonso Romo Garza, is not pleased to have his company described as a conglomerate. Pulsar owns Mexico's biggest cigarette company, Moderna. It now has 22 per cent of the country's insurance market, thus making it, he says, the largest Latin American insurance company. It has an agricultural company, carpet manufacturers and a stockbroker. But, insists Mr Romo, it is not a conglomerate.

There is no doubting that it is an unusual company. Pulsar's companies' annual revenues total $2.5bn and they employ 23,000 people, but Pulsar's headquarters in Monterrey have just 35. "This is a highly decentralised company," says its chairman.

The core of the company – and the key to its growth from nothing since 1981 – is its highly profitable cigarette business, which it claims has 55 per cent of the market. It has the Mexican brand leaders such as Raleigh, Viceroy, Finesta and Montana but also has the Mexican rights to distribution of international brands: Winston, Salem, Camel, Dunhill and Gitanes.



Alfonso Romo Garza: new markets in eastern Europe and China

Mr Romo acquired control of the company from Grupo Carso, the company of Telmex magnate, Mr Carlos Slim. Now, thanks to the deregulation of cigarette prices in the past two years, cigarette prices – and therefore profit margins – have risen dramatically.

Mr Romo's motivation for moving into the insurance business is based on his belief that the Mexican economy is heavily underinsured. Premium income is equivalent to just 1.2 per cent of gross domestic product, compared with up to 8 per cent in industrialised countries and in some other Latin American states. If Mexico grows, therefore, insurance premiums should grow even faster.

His interest in agriculture derives from the company's connection with tobacco farmers. Almost all Moderna's tobacco leaf is sourced in Mexico. The company therefore has links with farmers of 20,000 hectares of tobacco. It also has developed relationships with 10,000 hectares of fruit and vegetable growers, with an eye on the export market. Some observers doubt the synergy of these two elements of the company's business, but Mr Romo is enthusiastic about recent agricultural reforms which he believes will further help this side of the business – by increasing the availability of credit to farmers for example.

Mr Romo does not seem inclined to let his business stand still. In particular, he is enthusiastic about the prospects of new markets overseas for the cigarette company. Having sought areas where he could compete on an equal footing with the US tobacco giants, he has identified markets in eastern Europe, Russia and China for expansion.

THE TEC

Institute means business

IF MONTERREY'S big companies are still for the most part owned by its old families, they are to a large extent run by the product of one institution: the Monterrey Institute for Technical and Higher Studies, known as the "Tec". The institute was created 50 years ago to provide engineers for city industry and its approach today remains business-oriented.

Now the Tec has 62,000 students on 26 campuses throughout Mexico, 14,000 of them in Monterrey. It has a $200m a year budget, 30-40 per cent of which comes from companies and the rest from tuition. The Tec's alumni are to be found all over Latin America.

But important though training of engineers is for Mexico, the work of the Tec does not end there. It sees its business as preparing Mexican business for the challenges it faces, in the area of management, of technology and the environment. The Tec's Competitiveness Centres have been established to look at productivity issues; its research, usually sponsored by Mexican companies, aims to keep abreast of new manufacturing technology.

A recent visit to Monterrey showed researchers studying the use of robots in flexible manufacturing processes and the manufacture of plastic products – such as chain links and artificial hip joints – in a single process without the necessity to make joins.

Mr Rafael Rangel, the Tec's president, expresses a concern increasingly heard in Mexico: the ability of small- and medium-sized companies to survive in an open economy. These companies' access is limited to reasonably-priced credit, management techniques and to new technology.

"We have a problem with productivity and we have a long way to go. Some people blame only the exchange rate, but there is more to it than that. It's not just a matter of labour; the owners have to be convinced that they can improve productivity by training and through new production systems.

"Medium-sized and small industry is most affected. Large industry is going to survive very well."

Sara Webb assesses the investor view of an emerging market that is growing up fast

Hopes for an upgrade in rating

FOR AN emerging market, Mexico is growing up fast.

International investors have had a wide array of Mexican equity offerings and high-yielding bond issues from which to pick and choose for their Latin American portfolios over the past couple of years. And as a further sign of "maturity", those Mexican companies which have come into close contact with the international investor fraternity have taken steps to improve the quality of information they provide.

Now, investors are holding their breath for a decision on the North American Free Trade Agreement (Nafta), which the optimists believe will eventually be passed by the US Congress. Once Nafta is out of the way, Mexico could well see its credit rating – a sensitive indicator of a country's standing in the eyes of the international investor community – raised from speculative to investment grade.

Hopes of a rating upgrade have already helped to underpin the performance of Mexican bonds: if and when an upgrading eventually happens, a far wider range of investors will be able or more willing to invest in Mexican debt.

Mexican names have been among the most prolific Latin American issuers of new debt and equity, accounting for about 40 per cent of total new eurobond issuance from the region as companies refinanced existing borrowings or raised money for further expansion.

In the first nine months of 1993, Mexican borrowers raised a total of $5.909bn in the eurobond market, according to IFR Securities Data, compared with a total of $4.098bn in the whole of 1992.

This year has seen the launch of larger, more liquid bond issues, including a $1bn, five-year issue from Cemex, the largest cement company in Mexico, in May, and a $750m eurobond from Bancomer, Mexico's second largest bank, in June. Such liquidity has been warmly welcomed by international investors.

In addition to bigger issues and greater liquidity, the international capital market has seen a far greater variety of Mexican borrowers, some of whom the international investing community regard as "second tier" names, but which have nevertheless succeeded in raising funds.

Despite a setback in the performance of Latin American bond issues in the autumn of 1992, when investors suddenly panicked at the thought of just how much new issuance was likely to hit the international capital market, yields have continued to fall in the secondary market, and borrowers have been able to launch deals at increasingly more aggressive levels.

One Mexican sovereign issue, the 7.25 per cent issue due 1998, was sold in March at 208 basis points over the US treasury bond, and the spread narrowed to as little as 130 basis points in September before widening out slightly thereafter. As Mr Paul Luke, head of emerging market debt research at Morgan Grenfell, points out: "Such a spread is closer to US corporate investment grade spreads than to the sub-investment grade that new Mexican issues are rated by Standard & Poor's (S&P)."

However, Mr John Purcell, director of emerging markets research at Salomon Brothers, notes some signs of investor resistance to the ever-tighter yield spreads at which new issues are launched.

Investor demand for Mexican paper has been driven by the desire for high-yielding paper, given that US interest rates are at their lowest levels in 18 years.

"Institutional investors are in the market in a much bigger way than a year ago: they like the high yields and many of the investors have been making the effort to do their homework on the region so they feel more confident now about investing there," says one Mexican analyst.

Some investors hope to see a further rally in bond prices (and narrowing of yield spreads) if Mexico's credit rating is raised.

S & P rates Mexico's sovereign foreign currency debt as BB+, the highest category of sub-investment grade, whereas Moody's, the rival international credit rating agency, rates it Ba2, which is one notch below S & P's equivalent rating. Meanwhile, Duff & Phelps, a less closely-followed rating agency, has assigned an investment grade rating of BBB to Mexico's foreign currency debt.

In the case of sovereign long-term peso-denominated debt, the discrepancy is greater: S & P rates it AA- while Moody's rates it Baa1. Mr Purcell of Salomon Brothers, says S & P is altogether far more optimistic about Mexico's creditworthiness and argues that an upgrading of the rating for foreign currency debt could take place in the second half of 1994.

"We believe that Mexican sovereign debt should be regarded as virtually investment grade, even in terms of foreign currency obligations. We agree with S & P that the policy process has encountered difficult tests in 1992 and has passed them with flying colours, exhibiting both flexibility and consistency. To the list of accomplishments mentioned by S & P (fiscal policy and flexible exchange rate policy) we would add the renewed emphasis on education, the solidarity programme and agricultural reform among others," says Mr Purcell.

For both S & P and Moody's, the sovereign debt rating provides an effective ceiling for the credit ratings for Mexican corporate borrowers, even though analysts argue that certain Mexican companies deserve better credit ratings in their own right. "Some of the big Mexican companies would be as good as a double-A credit in the US if they weren't impeded by the country rating," says one analyst.

The key point is that if Mexico receives an investment grade rating, a much wider range of investors will be free to invest in Mexican debt. US insurance companies buy quite small amounts of Mexican debt at present, deterred by the fact that they must set aside capital because the debt is not investment grade: if that changes, they will be able to increase their exposure to high-yielding bonds significantly.

While the international capital markets are set to see plenty more new bond issuance in 1993 and 1994, the volume of international equity issuance has slowed down when compared with the volumes seen in the early 1990s.

This is largely a reflection of the absence of substantial privatisations during 1993 rather than a sign of poor investor appetite.

If anything, Latin American equity specialists predict that demand for new international equity issues should remain fairly firm given the ever-growing number of emerging market funds and a perceptible shift of US investors into non-US markets.

Mexican international equity offerings amounted to $3.103bn in 1992, boosted by a $1.243bn offering from Telmex, the Mexican telecommunications group, and large share offerings from Bancomer and Cemex.

However, the deluge of new issues in 1992 came to a halt in the summer due to difficult market conditions and worries about too much supply. Some planned issues were put on hold and the calendar only really picked up again at the beginning of 1993.

Total volume so far in 1993 – predominantly from private sector companies – amounted to $882.56m, according to IFR Securities Data, and included issues from Grupo Carso, Mexico's largest industrial conglomerate, Grupo Tribasa, Mexico's second largest construction company, Grupo Dina, Mexico's largest truck manufacturer, and Coca-Cola Femsa, the Mexican soft drinks bottler.

Generally, Latin American analysts report that new equity issues have gone quite well, even though the stock market has been vulnerable to Nafta sentiment. If Nafta goes through, analysts expect to see a further $2bn of issuance unleashed over the next year.

The variety of new issues has been accompanied by a noticeable improvement in reporting procedures and provision of information, analysts say, dictated partly by the US regulations governing the listing of American Depositary Receipts (ADRs).

Many investors were justifiably peeved when Cemex launched an international equity offering in 1992 and promptly used the proceeds to make acquisitions in Spain. Investors who had bought the shares because they wanted a Mexican stock were annoyed to find they had bought exposure to the Spanish economy instead.

It was not a happy chapter in investor relations: however, Mexican companies have probably learned from the episode, and analysts admit that Mexico today is probably among the best of the emerging markets in terms of disclosure.

This year has seen the launch of larger, more liquid bond issues, including a $1bn, five-year issue from Cemex

Mexican Eurobond issues 1992-1993*

Issuers	Issue amount (US$m)	% of total	No of issues
Mexico, The United Mexican States	1,580.78	15.8	10
Cemex SA	1,400.00	14.0	3
Bancomer SNC	750.00	7.5	1
Nacional Financiera, SNC (Nafinsa)	724.22	7.2	6
Grupo Financiero Banamex Accival, SA de	700.00	7.0	3
Banco Nacional de Comercio Exterior SNC	475.16	4.7	3
Grupo Televisa, SA de CV	400.00	4.0	3
Fomento Economico Mexicano de CV	300.00	3.0	1
Desc, Sociedad de Fomento Industrial SA	275.00	2.7	2
Volkswagen AG	262.81	2.6	1
Empresas ICA	225.00	2.2	1
MCTTR Trips	207.50	2.1	1
Banca Cremi SA	200.00	2.0	2
Hylsa SA de CVA de CV	175.00	1.7	1
Consorcio G Grupo Dina SA	150.00	1.5	1
Empresas la Moderna SA de CV	150.00	1.5	1

* Until October 12, 1993. Source: IFR Securities Data

Mexican equity offerings 1992-1993*

Issuers	Issue amount (US$m)	% of total	No of issues
Telefonos de Mexico, S.A de C.V.	1,243.17	31.2	6
Bancomer SNC	638.00	16.0	2
Cemex SA	460.93	11.6	2
Empresas ICA	283.80	7.1	2
Grupo Carso	235.04	5.9	2
Grupo Trituradores Basalticos (Tribasa)	210.80	5.3	2
Consorcio G Grupo Dina SA	173.15	4.3	3
Grupo Embotellador de Mexico SA de CV	138.80	3.5	2
Coca-Cola Co	134.50	3.4	2
El Puerto de Liverpool SA de CV	133.75	3.4	2
Sears Roebuck & Co	101.71	2.6	2
Transportacion Maritima Mexicana	75.68	1.9	2
Grupo Radio Centro SA de CV	52.25	1.3	1
Grupo Simec, SA de CV	42.56	1.1	3
Quantum SA	34.22	0.9	1
Grupo Posadas	28.09	0.7	1

* Until October 12, 1993. Source: IFR Securities Data

Latin American Eurobond issues 1992-1993

Issuer country	Total (US$m)
Mexico	10,008.0
Brazil	7,335.0
Argentina	4,844.7
Venezuela	2,083.1
Colombia	375.0
Uruguay	240.0
Chile	221.6
Guatemala	80.0
Total	25,147.6

Source: IFR Securities Data

Latin American equity issues 1992-1993

Issuer country	Total (US$m)
Mexico	3,986.5
Argentina	3,461.3
Chile	337.0
Panama	303.8
Venezuela	169.2
Brazil	132.5
Colombia	53.6
Total	8,443.8

Source: IFR Securities Data

BANKING

Cost of credit is still too high after privatisation

THE EUPHORIA that followed the privatisation of Mexico's 18 state-owned banks has come to an end.

Last year and the year before Mexico's business elite paid out $12.4bn for the banks – paying around 3.1 times book value – in the belief that the economy would grow by at least 4 per cent a year, and the financial sector by twice that.

The rosy forecasts have turned out to be too optimistic. The economy is almost stagnant, loan losses have increased sharply, and the banks have had to increase their provisions. Profitability, while still high by international standards, has begun to fall, as measured by a return on assets or equity.

The private sector, which had hoped privatisation would cut funding costs, has complained about the persistently high spreads between lending and borrowing. The government has responded by authorising nine new banks this year, and seems set to authorise several more next year.

The troubles in the banking sector have already provoked a shake-out. Three financial groups have merged: Banca Cremi and Banco Union, two multiregional banks; Bancreser and Banoro, a multiregional and regional bank; and Afin and Banorte, a brokerage and bank. Other mergers, or alliances are expected.

Bancomer and Banamex, Mexico's two largest banks, are undertaking sweeping changes to make themselves more competitive. Mr Ricardo Guajardo, chief executive of Bancomer, says Bancomer will reduce staff by 6,000 out of a total of 40,000 this year, but net cuts will be deeper, because slow economic growth has reduced by about half the numbers of new branch openings.

The banks will face still more pressure next year when Mexico is expected to allow foreign competition. If Nafta is agreed by the US Congress, US and Canadian banks, and other foreign banks with subsidiaries in the US and Canada, will be permitted to set up branches over 10 years. If Nafta is not approved, Mexico will still open up, probably in the form of bilateral investment treaties.

"It is in the interest of Mexico to have financial intermediaries from abroad," says Mr Guillermo Ortiz, the under-minister of finance in charge of banking regulation. While foreigners are not expected to open many bank branches, they will probably cherry-pick the most profitable segments in the corporate and retail sector.

Under present law, foreigners in the aggregate are allowed up to 30 per cent of a financial group, which may increase to 49 per cent under the new foreign investment law. So far the Bank of Nova Scotia of Canada has taken a 5 per cent stake in Comermex-Inverlat; Spain's Banco Bilbao-Vizcaya a 20 per cent stake in Mercantil-Probursa; and Spain's Banco Central Hispano a 20 per cent stake in Prime-Internacional.

The banks are in trouble largely because they have little experience in lending to individuals and businesses. In the 1980s, the banks lent most of their money to the public sector and hardly anything to the private sector. Now the public sector has largely stopped borrowing, while credit to the private sector has exploded – up 327 per cent from 1989 to 1992.

While spreads are higher on private-sector loans, so is the chance of default. With the economy stagnant, growing

The economy is almost stagnant, loan losses have increased sharply, and the banks have had to increase their provisions

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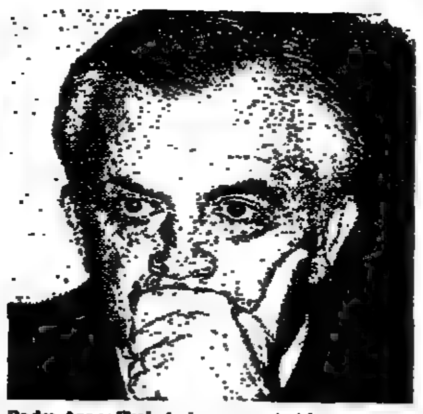
The men who would be president

Damian Fraser discusses the strengths and weaknesses of the likely foursome awaiting the final word from President Carlos Salinas


Luis Donaldo Colosio: the only candidate to have held elective office


Manuel Camacho: has a keen sense of Mexico's national identity


Pedro Aspe: likely to be supported by businessmen and foreign investors

IN THE next two months Mexico's ruling party will unveil the candidate to succeed President Carlos Salinas.

The chosen man will, in all likelihood, win next August's presidential election. If the past is any guide, he will rule Mexico with unfettered power for the next six years.

While the decision is nominally that of the ruling Institutional Revolutionary Party (PRI), Mr Salinas is expected to anoint his own successor, just as all his predecessors have done. The PRI will then formally nominate the chosen candidate.

So far President Salinas has allowed three candidates to emerge as front-runners: Mr Luis Donaldo Colosio, the social development minister, and the favourite; Mr Manuel Camacho, the mayor of Mexico City; Mr Pedro Aspe, the finance minister. Mr Ernesto Zedillo, the education minister, a fourth candidate, is considered the dark horse, but with an outside chance.

The candidates share much in common: they are all in their 40s, were educated at US graduate schools in economics or public administration, worked under Mr Salinas in the budget ministry in the mid-1980s, and played an important part in the reforms of the past five years. Whoever wins is likely to appoint a cabinet reasonably similar to the present one.

On the economic front, all candidates will offer some continuity with the Salinas policies. As Manuel Camacho, perhaps the candidate least identified with Mr Salinas's economic reforms, says: "The economic changes are here to stay. No-one would overturn them."

Since candidates publicly support everything the president does, no-one can be sure how they will behave if elected to the top office – and in the past most predictions of presidential performance have been far from accurate. Nevertheless supporters of each candidate have been busy defining the differences between their boss and the rivals, in an effort to sway political opinion behind their preferred choice.

Mr Aspe is seen alternatively as a powerful advocate of economic reform with an ability to make tough decisions, and as politically inexperienced and out of touch with Mexico. Mr Camacho is viewed by supporters as the candidate of democracy, the man who can bring legitimacy to the political system, and by rivals as a dangerous populist with no experience in economic administration.

Mr Colosio is the self-styled candidate of continuity and decentralisation. But opponents question his achievements to date, and ask if he is clever enough to run the country.

The public defining of candidates is considered important, because each has to be seen to be credible before becoming eligible for the presidency. He has to enjoy some support within the PRI or political classes – especially after 1987, when the ruling party split over Mr Salinas's candidacy.

The views of the business and labour sectors, foreign investors and the US, even perhaps the army, have to be taken into account. More so than in the past, the candidate's public appeal needs to be considered. A convincing, legitimate victory next August would help erase the memory of 1988's fraud-tainted result, and give Mexico's political system some much needed legitimacy.

'The economic changes are here to stay. No-one would overturn them'

However, the final word in the past has been the president's. His power is such that he can always rescue a candidate who is in trouble, by praising him in public, inviting him on a trip, or, as happened to Mr Camacho recently, to lunch in a public canteen. Conversely, a candidate that falls out of presidential favour, often finds himself losing support with one group or another, and being considered unsuitable.

Even a candidate with little rapport with the public would still be favoured to win next August's election. After 64 continuous years in power, the PRI enjoys huge advantages relative to other parties in terms of resources and control over the media.

The president of the PRI has said that the nomination will be made in January, but Mr Salinas may not be able to wait that long. The uncertainty is already driving many members of the government frantic, and the in-fighting between rivals is hurting the administration.

There are widely assumed to be three possible scenarios for the date. The most likely is between November 17, the date of the vote on the North American Free Trade Agreement, and December 12, when President Salinas goes off on a 10-day trip to Asia. It is thought unlikely the president would leave the country for 10 days without having cleared uncertainties over the succession. The losing candidates could be invited with the president on the Asian visit, keeping them from stirring up trouble.

The president could decide to choose the candidate before the vote on Nafta, although this is considered unlikely. While this would have the attraction of reducing uncertainty associated with the Nafta vote, an unveiling before Nafta would take power from the president when he may need it most.

Finally, the president could stick to the original programme, and wait until after his Asian visit, or even after the New Year. This would break with past practice of selecting a candidate at least nine months before the election.

Pedro Aspe

Mr Aspe's claims lie in the economic realm largely because as finance minister he is given credit for economic stability, and Mexico's return to favour in international capital markets. He is likely to be supported by businessmen, foreign investors, some old-style politicians in the PRI that approve of his strong hand in implementing policies, and members of the centre-right Party of National Action estranged from their candidate.

As president, Mr Aspe is expected to press ahead with structural economic reform. Colleagues say he would be likely to overhaul the social security system, change labour laws to make them more flexible, and instigate a thorough shake-up of the legal system.

The Salinas-inspired reforms in education, agriculture and commercial de-regulation would be deepened.

His supporters say he would guarantee macro-economic stability and offer the most attractive economic environment for foreign investors. Says a colleague of the finance minister: "Mexico will need a huge amount of foreign resources to grow by 5-6 per cent a year – around $20bn-$30bn a year... We will only get that with a 100 per cent record in macroeconomic performance... We cannot deviate one single inch from macroeconomic orthodoxy – if we [deviate] the money will not be there."

Mr Aspe in recent speeches has been emphasising the social aspects of economic reform. His newly published book, *Economic transformation: the Mexican Way*, makes the case over and over again that economic liberalisation releases money for anti-poverty programmes, and increases opportunities for people from all backgrounds.

The in-fighting between rivals is hurting the administration

Mr Aspe's perceived weakness is lack of political experience, a certain patrician air borne from his aristocratic background, and identification for austere economic policies that have left many Mexicans worse off. He is seen by some as too pro-American, too unwilling to make concessions to politically important interest groups. He is not personally close to Mr Salinas's circle of friends, who may not fully trust him.

In a difficult economic situation this could spell trouble. Mr Cuauhtémoc Cárdenas is likely to focus the electoral campaign around the costs of economic stabilisation, the concentration of wealth under the Salinas administration, and the sacrifice of sovereignty in the process of negotiating the North American Free Trade Agreement. As the architect of economic policy, Mr Aspe is identified with all these policies.

Manuel Camacho

Mr Camacho, the son of an army general, an old university friend of Mr Salinas, and former political science professor, is at the other end of the spectrum. He has a keen sense of Mexico's national identity, as mayor of Mexico City is not associated with Nafta, and has good relations with the Mexican left.

He would try to strike some kind of pact with Mr Cuauhtémoc Cárdenas, the candidate of the left, that could ensure a fair and transparent election.

Mr Camacho clearly sees this as the issue of the day. He stresses that "legitimacy is something very important in the consolidation of our changes". He is widely reported to have pushed for more far-reaching political reforms than those passed by the PRI, in the hope of winning approval for them from Mr Cárdenas.

He says recent moves to censor Mr Cárdenas from radio stations "were political errors" and that it is essential the elections next year are peaceful and calm.

But even his own team is nervous over how financial markets would react to his candidacy.

His economic policy would look after those who have not done so well under the Salinas presidency. He refers to an "industrial and agricultural policy that would protect employment". He is said to find economics boring.

Mr Camacho also has important enemies. He is not close to Mr Jose Cordoba, the president's powerful chief of staff, to the old-style politicians who distrust his conciliatory approach to the opposition, nor to the technocrats in the finance ministry, and other

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DIEGO FERNANDEZ DE CEVALLOS

Skilful political negotiator


Diego Fernández de Cevallos: wild youth before discovering marriage

DIEGO FERNANDEZ DE CEVALLOS looks more like an Old Testament prophet than the presidential candidate of Mexico's centre-right opposition party.

He is tall and erect, sports a long and sometimes shaggy beard, and has a booming voice. He happily pontificates on religion, the spiritual renewal of Mexico and the moral responsibilities of a politician, but has few specific suggestions on what he would do were he elected.

When arriving late for an interview, he explains that he has been legally recognising an illegitimate son he never knew about. A Jesuit-educated practising Catholic, Mr Fernández de Cevallos had, by his own admission, a wild youth before discovering marriage.

His messianic manner disguises a skilful political negotiator who has worked his way up the National Action Party to become the party's leader in the Chamber of Deputies. He is backed for presidential candidate by almost all the leading figures in the PAN.

He owes his position partly to luck and some skilful political manoeuvring. All the well-known national leaders of the PAN, such as the governors of Baja California and Chihuahua, decided not to run some time ago. The other main contender, Mr Vicente Fox is the son of a Spanish-born parent, and thus inadmissible under Article 82 of constitution.

As the party's top official in Congress, he has become leader of the PAN's conciliatory wing that supports close co-operation with the Institutional Revolutionary Party (PRI). He almost single-handedly negotiated with the PRI the political reforms, which while approved by the PAN, were opposed by the Party of Democratic Revolution (PRD).

His negotiations with PRI have been long criticised by those in the PAN who argue the party should be more confrontational in the fight for democracy. Last year several leading members of the PAN – including a former presidential candidate and head of the party – resigned, complaining that "the party has not acted as the opposition but as one more sector of the system".

His candidacy is widely considered a boost to the fortunes of the much better known Mr Cuauhtémoc Cárdenas, of the PRD. While the PAN is better organised than the PRD, and electorally more successful, Mr Fernández de Cevallos is hardly recognised outside political circles in Mexico City, and his public support for the government may put off those wanting to register a protest vote against the PRI.

He has modest campaign experience, and his patrician, eccentric manner, might alienate some ordinary Mexicans. So far he has been inept at handling the press.

Far from being defensive about his good relations with the government, Mr Fernández de Cevallos cheerfully describes President Carlos Salinas de Gortari as the best president Mexico has had. He hangs in his office a signed photograph of Mexico's former interior minister Fernando Gutiérrez de Barrios, a stalwart member of the ruling PRI.

Mr Fernández de Cevallos says that by negotiating with the PRI, the PAN has extracted important concessions. Under the recently passed electoral reform, the PRI agreed to long-standing PAN demands – namely, to open up the Senate to opposition parties, make electoral bodies more independent of the government, and cap campaign spending.

CUAUHTEMOC CARDENAS

The nearly man of 1988


Cuauhtémoc Cárdenas: narrowly defeated in 1988 elections

IN THE unlikely event that the Institutional Revolutionary Party does not provide the next president, the man most likely to be head of state is Mr Cuauhtémoc Cárdenas. He bears the surname of the man who remains one of the country's most revered presidents: his father Lázaro, who nationalised the oil industry. In a political élite dominated by the descendants of the Spanish, Mr Cárdenas is clearly of Indian stock – a tremendous electoral asset in this predominantly mestizo country.

Mr Cárdenas was narrowly defeated in the fraud-marred 1988 elections which brought President Carlos Salinas to power, and believes he was cheated of victory.

The level of animosity between the president and Mr Cárdenas is high: the latter can barely bring himself to mention the president's name. The rise of Mr Salinas and the technocrats in the PRI during the 1980s spelt an end to Mr Cárdenas's political career in the ruling party. As a result, he and others defected to present a left-of-centre alternative to the increasing market orientation of the PRI.

Yet after his being so close to victory in 1988, Mr Cárdenas's Party of the Democratic Revolution (PRD), has performed badly. It made a poor showing in the 1991 elections and received a blow in losing to the PRI the state of Michoacan. There has also been internecine squabbling and its ability to deliver votes may have suffered.

Despite these losses, Mr Cárdenas and the party have played an important role as a goad to the administration, putting pressure on the government to open the political system and improve the conduct of elections. This has been partly successful, even though Mr Cárdenas himself dismisses the administration's reforms as a "backward step". The access of government and the opposition to the media remains heavily loaded against the opposition: Mr Cárdenas was interviewed by Televisa, Mexico's biggest private television network, last month for the first time in five years.

While publicly condemning the government, Mr Cárdenas received the minister of interior, Mr Patrocinio González Garrido, to talk over electoral reforms. The talks concentrated on attempts to ensure that independent individuals – rather than, as Mr Cárdenas would see them, PRI apparatchiks – were appointed to the electoral commissions overseeing the elections at federal and state level. The fact that they failed means almost certainly that, should Mr Cárdenas lose, he will refuse to accept the victory of the PRI as legitimate.

Nonetheless, Mr Cárdenas is as aware as anyone that the world has changed significantly since 1988. He has toned down his anti-US rhetoric and has been careful in his comments about the North American Free Trade Agreement. "We have good relations with all countries, including the US," he said in an interview.

He did, however, make the point that Nafta has been negotiated on the assumption that the three economies are equal. In fact, Mexico's economy needs greater support because it is demonstrably weaker than that of the US and Canada.

He was critical of the administration's economic policies, saying they have resulted in unemployment and a fall in living standards. "Where are the results of the great economic project?. We have a concentration of economic power, weak growth, a growing current account deficit and a fragile economic situation.

"It's not sufficient to leave all this to the forces of the market," he said. Investment should be oriented "to the key sectors of the economy", which could be done both through the private and the public sector, in the latter case, for example, using existing state development banks. On privatisation, he said: "We see neither privatisation nor nationalisation as ideological questions."

However, he added that the transparency of some of the Salinas administration's privatisations was in doubt, and his government would examine the propriety of the sales to see if action was necessary.

The country's foreign debt remains a problem, he said. "We have to renegotiate the debt which remains too heavy a burden for the economy."

Mr Cárdenas has yet to gain much headway in the opinion polls. Nonetheless, the campaign has hardly begun. If as expected, the right-of-centre PAN puts up a weak presidential candidate, Mr Cardenas could once again expect to be the focus of the protest vote against the government.

Stephen Fidler

Cost of credit too high

Continued from page 6

numbers of companies and individuals have stopped paying their debts. Net past due loans as a promotion of net loans increased from 0.71 per cent in December 1991 to 4.37 per cent in June 1993.

The banks contend that the high rate of default forces them to keep interest rate spreads high. Contrary to expectations, the Mexican bank's net interest margin has increased since privatisation, from 5.61 per cent in 1991, to 6.56 per cent in June 1993.

Some steps are now being taken to help banks analyse risk more efficiently. The government recently passed new laws that will allow banks to share the credit history of customers. This should help them to avoid making loans to customers with a history of default. A new national credit bureau, the product of a joint venture between Mexican banks and specialist US credit companies, is being set up. The banks are investing tens of millions of dollars in improving computer systems.

The banks say that still further de-regulation is necessary before interest spreads fall. Mr Roberto Hernandez, chief executive of Banamex, Mexico's largest bank, urged the authorities at the Bankers Convention in September to reduce obstacles to banks' use of derivatives, international emission of peso bonds, and external funding.

"Foreign bankers are arriving in our country proposing schemes in a few days that takes us several months to receive authorisation for," he said. "It is urgent that the authorities allow the banks to act with more liberty in the definition of operations, assets and liabilities."

Mr Hernandez launched into an attack on Mexico's legal system, that he said made it difficult to recover collateral. "The implementation of justice is not always agile and efficient," he said. "All kinds of subterfuges are used to delay trials. The judicial processes frequently last for years. And when they are resolved, the [bank] guarantees have lost significant value."

Mr Guajardo of Bancomer complains that it can take three years or more to win a settlement in the case of a mortgage default, and that the law is not clear on ranking of creditors.

He says these problems can add 2.5 to 3 percentage points on the cost of credit on mortgages and to small- and medium-sized businesses, and leads banks to insist on more collateral when lending than in the past.

Mr Ortiz admits that deregulation has to go further. He says the government will propose later this year new laws that should help a secondary mortgage market develop, by removing restrictions on the transfer of property titles. The government will also gradually loosen restrictions on Mexican bank's participation in derivatives, once a correct capitalisation regime is in place.

However, the government is worried about the capacity of banks to take risks in an unregulated environment. It likes to remind those who favour more aggressive deregulation, that four years ago Mexican banks were state-owned, forced to lend to the public sector at subsidised interest rates, and protected from foreign competition.

Damian Fraser

Men who would be president

Continued from page 7

government departments.

Mr Camacho's colleagues are aware of these weaknesses. They talk about an (improbable) alliance with Mr Aspe – just as some in the Aspe team talk about an alliance with Mr Camacho. They say that an independent central bank, and Nafta, make his economic inexperience less important. They go to great pains to stress aspects of his economic record while mayor of Mexico City – Mr Camacho has balanced the budget, privatised urban services such as water, and presided over a property surge.

Mr Camacho himself says: "Investors will come to a country with peace and tranquillity" and with a "policy of national development". In his view economic and political reforms of the Salinas presidency will make the job of governing Mexico much more difficult in the future. "Politics in Mexico is going to demand more abilities and democratic skills," he says, hinting that he is the person to manage such a process.

Luis Donaldo Colosio

Mr Colosio is seen as offering a bit of Mr Camacho and Mr Aspe, and perhaps for this reason is viewed as the favourite. While his friendship with Mr Salinas is relatively new, he is believed to be totally loyal to the president. He is the only candidate to have held elective office, as a deputy and then senator.

As head of the PRI for three years, it is assumed he would carry the party without difficulty. His two years in the social development ministry, which runs the president's anti-poverty programme, Solidarity, has given him an opportunity to travel around the country, and enabled him to build up friends and allies.

Mr Colosio talks about the need for greater decentralisation in Mexico, and giving more power to the states. He says municipalities have to modernise their source of income, and points out that property tax is just 0.002 per cent of GDP, "which has to be raised". He believes that reforms of the past 10 years have to be continued at a state level, with each state pursuing deregulation in the way the federal government has.

The theme of regionalisation goes down well with Mexico's governors and local politicians, and is consistent with Mr Colosio's roots. He only arrived in Mexico City from a cattle ranch in Magdelena, Sonora, in his mid-20s (after passing through the University of Pennsylvania and Vienna, Austria), and so his view of Mexico may not quite as fixed on the capital as are the viewpoints of the other candidates.

Mr Colosio's team says he would "guarantee absolute continuity" in economic reforms. He would delegate to cabinet colleagues such as Jaime Serra Puche, the trade minister, and Mr Zedillo. He is expected to protect Mr Cordoba. He has good relations with influential businessmen who have done well during the Salinas presidency.

Mr Colosio says economic

Mr Colosio is the only candidate to have held elective office

orthodoxy is vital. "In the decade of the 1990s there will be a great competition for capital. We cannot forget that." He adds: "You have to know what are Mexico's advantages to investors... You cannot have a man on the side managing the economy."

But rivals say his views are vague, his accomplishments as minister unimpressive, and they do not regard him as articulate or intellectually able. They say he hardly ever speaks in economic cabinet, and conclude he has no opinions worth mentioning. While Mr Camacho and Mr Aspe have published articles on Mexico's economic or political situation, Mr Colosio has never written anything memorable.

"Mr Colosio may be smart, but it is a huge mystery what he believes in," says one government minister. "Isn't it worrying that he has no enemies? At his level you should be taking difficult decisions that cost you support." His main enemies are in Mr Cardenas's party, who suspect him of hard-line political instincts, and of having opposed more fundamental political reforms.

The Colosio supporters flatly deny this. They said their candidate was not involved in negotiations over political reform, and would favour an electoral pact with Mr Cardenas in the right circumstances, and television debates. They say their candidate would promote further reform of the PRI were he president.

Ernesto Zedillo

Mr Zedillo's chances are considered low, but he has the right economic credentials for the job, and presumed support of Mr Cordoba. A former central banker, with an economics PhD from Yale, he is seen as dry and cautious. Last year's storm over new history textbooks revealed his political inexperience, and perhaps more importantly, a lack of friends to come to his rescue. The books were widely criticised for being overly partial to Mr Salinas and betraying the spirit of Mexico's revolution, and finally had to be withdrawn.

The final choice of candidate will depend in part on what Mr Salinas believes are Mexico's most urgent problems. Mr Aspe could be favoured if further economic reform and macroeconomic stability were considered essential; Mr Camacho, if a legitimate and convincing electoral defeat of the left and further democratic reforms were deemed necessary; Mr Colosio, if, as many believe, the president is looking for personal loyalty, pragmatism and continuity with present policies of steady economic reform and cautious political changes.

The vote on Nafta could affect the decision, but in no obvious way. On the one hand, Nafta's rejection makes a candidate's economic abilities more important, since future economic policy is no longer guaranteed by the treaty. On the other hand Nafta's rejection would make the economic situation difficult, the electoral campaign closer, and put a premium on a candidate with good political skills.

Mr Salinas could still spring a surprise, and name one of the dark horses, or throw up the selection to the PRI. Some members of the PRI might even refuse to support the chosen candidate. But the overwhelming likelihood is that the party will rally around the chosen candidate, who will bring into his fold some of the erstwhile rivals.

The country's ports are due for a transformation, writes **Damian Fraser**

Government plans a sea change

FOR A country bordering on the Pacific and Atlantic oceans, Mexico's ports play a surprisingly small part in the nation's economy.

Mexico's three largest cities – Mexico City, Guadalajara, and Monterrey – are all land-locked, and almost all internal trade goes by road or train. The US ports at Los Angeles and Long Beach handle more of Mexico's trade with Asia than any Mexican competitor, and that at Houston handles most of the trade between the industrial north-east of Mexico and Europe.

The Mexican government now hopes to change this. It is in the process of privatising the 22 principal ports, and is confident private capital and better management will transform the ports' fortunes. This would not only boost Mexico's exports and its ability to compete in the world economy, but would take some off the strain off Mexico's over-burdened roads and railways.

The port privatisation is part of a co-ordinated effort by the Mexican government to bring private capital into public infrastructure, and improve communications across the country. Poor communications is considered by the government and the private sector as one of the critical constraints on economic growth, especially for the underdeveloped southern part of the country.

The government has already built more than 4,000km of toll roads at a cost to private investors of more than $10bn. It is planning later this year to pass new laws that would allow privately-run airports and trains. It is keen to have foreigners investing in new projects, either directly or by buying bonds that are backed by future revenues from them.

The toll road programme has now run into trouble, and no new road concessions are being awarded, mainly because of insufficient domestic capital, and high tolls on existing roads that have deterred users. The lack of new road construction could hurt the port privatisation, since investors may be unwilling to bid for a port if it is not well-connected to Mexico's main cities.

Veracruz: in the first tentative step to privatisation, the government took over the port some two years ago in a midnight raid

Under the new port law, the government envisages three separate groups of private companies taking part in each port. One group will be akin to a US port authority and acts as a sort of port landlord, charging ships and terminal operators rent for use of the port space; a second will build and operate private terminals and other physical facilities; and a third manage general port services (such as moving cargo or towing ships).

Mr Jaime Corredor, the top government port official, believes the first port authority concessions will be sold by the end of this year in competitive auctions, and the remainder by next. Under the law foreigners can earn up to 49 per cent of a port authority.

Meanwhile, the government is awarding concessions to the private sector to build new terminals and run basic services, and will sell off concessions to existing terminals later in the year. There are no foreign limitations on investments in terminals.

The law would mark a sharp break with present practice. Mexico's principal ports have been run out of Mexico City by a single centralised state authority. That meant there was no competition between the ports, and plenty of cross-subsidies between the profitable and loss-making ones. Given the shortage of public money, port equipment was often out of date, and inadequate.

"The new regime will allow competition both between and within ports, significantly increasing productivity," says Mr Corredor.

While private companies have for a while been able to build their own terminals within a port, and manage some port operations, such companies were often effectively controlled by port unions, notorious in Mexico for corruption and restrictive practices.

In the first tentative step to privatisation, the government took over the Veracruz port some two years ago in a midnight raid, broke up the corrupt union, and handed over most operations to three competing private companies. Since then productivity has surged ahead, and the port handled about 6.4m tonnes of the cargo last year, 23 per cent more than 1991, according to Angel Gonzalez Rul, the delegate at Veracruz port.

The new law expects to draw from the Veracruz success, since it removes exclusivity contracts enjoyed by unions, says Mr Corredor. The law gives investors in terminals freedom to manage their operations and hire their own workers. Unlike the past, several companies will compete with each other when offering basic port services, reducing the power of any group of workers.

In mid-August the government awarded 27 concessions to the private sector to build cement, grain and car terminals in ports around the country. The companies included the German chemicals giant BASF, Nissan of Mexico, and Apasco, the Mexican arm of the Swiss cement company Holderbank.

Such investment is badly needed, but may not affect one of the greatest constraints on Mexico's ports – poor communications with the rest of the country.

At Veracruz, cargo at the port often waits for days because there are not enough trains to take the goods to Mexico City, says Jaime Sanchez Diez, head of Operadora Portuaria del Golfo, one of the private operating companies in Veracruz.

Mexico's railways remain in public hands, and have suffered from government cuts in public investment over the past decade. In apparent recognition that improving ports without touching railways may not take Mexico very far, the government is expected to change the constitution later this year that would permit some form of railway privatisation.

The improvement in Mexico's ports will have to involve reforms of the custom clearances if they are to be competitive, says an executive at Transportacion Maritima Mexicana (TMM), Mexico's largest shipping company. He says that while "while the privatisation measure is very good as it is, it is not sufficient. Mexico's customs clearance is overly complicated and discriminates against shipping."

TMM complains that while trains coming from the US frequently do not have to stop for clearance until they reach their final destination in Mexico, ships are checked immediately and laboriously. This can hold up shipped cargo, and given the long and complicated Mexican custom procedures, add significantly to costs. The TMM executive says it can take 18 days for cargo to reach Mexico City by port from the north-west port of Manzanillo, and just 13 days by train from the north-west border.

Twenty-two per cent of the economically-active produce just 8 per cent of GDP, writes **Damian Fraser**

Change on the land – for good or ill

Ancient methods: a farmer ploughs a field with oxen

Hand-picked: broccoli packing plant in Irapuato, Guanajuato

have to learn how to sell their crops to foreign markets. Poorly directed subsidies in credit, fertilisers and insurance made some farmers better off, but left the vast majority in poverty.

The extent of the present problems are partly concealed by rapid growth in production of crops, such as corns and beans, that until now have been protected from imports. From 1989 to 1992 the production (measured in value) of corn increased by 52.8 per cent in real terms, and beans by 21 per cent. However, production of unprotected crops has nose-dived: rice production fell 19.6 per cent, soya by 40 per cent, and cotton by 80 per cent in the same period.

On October 4 the government announced a radical new agricultural programme that would scrap price supports, and instead subsidise farmers according to how much land they own. The intention was to end discrimination in favour of

Hundreds of thousands of farmers have been left bankrupt after borrowing too much

basic grain production, which because of the increase in output of protected crops, was becoming increasingly expensive, and contributing to the decline of the unprotected sector.

The programme, known as Procampo, breaks the link between subsidies and production, since a farmer will receive the same amount of aid whatever and however much he produces. It thus ends Mexico's long-term commitment to self-sufficiency in food, since output will in the future vary according to changes in international prices, and domestic costs.

Procampo will eventually pay the 3.3m farmers who were producing subsidised crops between 400 pesos and 900 pesos for each hectare of land they cultivate, depending on the average productivity of the land. The subsidies will be phased in over the next two years at the same time as price supports are removed, and the market opened to imports.

At present the government pays farmers about 750 pesos for a tonne of corn and pays another 160 pesos in transport and commercialisation costs. The international price plus delivery is about 450 pesos, the same average price Mexican consumers pay.

The programme makes redundant Mexico's commitment under the North American Free Trade Agreement (Nafta) to allow US and Canadian corn exports without restrictions within 15 years, since Mexico will now open up unilaterally in two years.

The scheme should encourage farmers to switch some production from formerly protected corn to export crops such as fruit and vegetables, and may arrest the decline in cotton, rice and other products subject to international competition. The diversification into value-added crops may be given a further boost by Nafta, which, if approved by the US Congress, would eventually remove US tariff and non-tariff barriers to such Mexican exports.

Even without Nafta, exports of value-added products have surged in the past decade, taking advantage of the good climate in northern Mexico, its cheap labour force, and its proximity to the US. From 1980 to 1991 strawberry production increased by 420 per cent, tomato production by 57 per cent and melon production by 80 per cent.

Procampo will have an important distributive impact in favour of the poor farmers in the south and centre of Mexico – one of the stated reasons the government is to go ahead with the reform. But it will also put cash in the hands of farmers a few months before next August's president election, and has thus been attacked as an attempt to buy votes.

The average farmer in the rich northern state of Sinaloa produces six tonnes of maize per hectare, giving him, under the price support scheme, an equivalent subsidy of about 2,760 pesos per hectare – considerably less than the 900 pesos or so he will receive with Procampo.

However, the average farmer in the southern state of Oaxaca produces less than two tonnes per hectare, most of which he consumes, so that he hardly benefits at all from the price subsidy. He will gain at least 400 pesos per hectare from Procampo.

By injecting more than $3.7bn of cash subsidies into the rural sector every year, Procampo will give farmers money to improve quality of their land, and produce more profitable crops. With banks unwilling to lend to farmers because of the lack of guarantees in case of default, the land subsidy gives farmers a future cash payment that they can swap in return for credit.

Not even the government contends that Procampo will solve Mexico's agricultural problems overnight. It admits it may in the long-run contribute to further decline in the sector. Many producers of corn and beans will not make a living selling crops at international prices, and will have to convert their land into non-agricultural use.

Some recent studies by academic economists suggest that as many as 700,000 farmers could be forced out of work by full liberalisation of corn prices. While offering direct subsidies will soften the blow of price liberalisation, one official says: "In the end we will have fewer people working in agriculture as a proportion of total employment. You cannot expect to improve the standard of living in the countryside, when you have 22 per cent of the economically-active nation producing just 8 per cent of GDP."

The implementation of Procampo is also likely to be difficult. "Procampo sounds good on paper," says one government official, "but sometimes I wonder how it is going to work in practice." The possibility of corruption is high, since the government will have to dole out cash payments to 3.3m farmers in a short period of time.

The reform of the ejidos (communal land) will accelerate migration from the countryside. The reforms allow ejido farmers to sell their land, if a sufficient majority in the farm agree to do so, or rent it out. The changes also make it a lot easier for ejido farmers to enter into joint ventures with businesses, and formally end more than 50 years of continuous land reform.

The changes have not yet had the impact hoped for, partly because the certification of land titles has been much slower than many expected. As part of the reform, the government agreed to certify land titles to about 102m hectares of land, about half of Mexico. Ejido land cannot be legally sold or rented out, and access to bank loans is difficult, until the land title is certified.

The process has gone more slowly than some had hoped for, and the first title was only given out in August. Dr Warman says the programme of certification will not be finished until 1996 or 1997.

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The arbitration panel has to issue a final report and make recommendations within about eight months. If the panel's recommendations are ignored, the panel can fine the offending nation, if the non-enforcement is trade-related. If the fines are ignored for another six months, the complaining country can impose sanctions on the country (in the case of Mexico and the US) or take it to court (in the case of Canada).

The process is even more long-winded for violations of specified labour rights. For, while the original intention was to have symmetrical labour and environmental accords, the provisions on labour are weaker than those on environment.

The failure to enforce all environmental laws is subject to fines and sanctions, but with labour, penalties are limited only to failure to enforce minimum wages,

Critics complain that under the accords the process of imposing fines is cumbersome

safety standards, and child labour laws. The North American Labour Commission is limited to a staff of 15, whereas there is no limit on the Environmental Commission.

The environmental agreement allows all information to be used in findings, whereas the labour agreement only allows publicly available information from governments to be submitted.

The impact of the labour side accord could be significant, if Mexican enforcement was stepped up as a result. While Mexico's minimum wage laws are in effect enforced by the market place, child labour is widespread in Mexico – according to the estimate of the 1990 census there were 418,575 workers between the ages of 12 and 14. Likewise, factories, especially small ones, routinely ignore health and safety standards, and could probably not remain in business if they had to comply with all the existing laws.

Nevertheless, US unions have complained that the labour side accord fails to address violations of the right to strike and the right to choose independently a union – such violations, they say, keeps Mexican wages down to artificially low levels. Mexico's minimum wage is about $4.20 a day, and the registered average wage $12.50 a day.

The Mexican government has wide powers to interpret labour law to its advantage. The government is closely allied with the official Confederation of Mexican Workers, headed by nonagenarian labour leader Fidel Velazquez, and the two have worked together to make sure no break-away union acquires too much power, and undoes the official wage and price policy.

Last year unions announced plans to strike 6,814 times, but only about 140 resulted in plant shutdowns. In a not unusual example, a strike at Volkswagen car plant was declared illegal by the (government-controlled) Federal Labour Board, even though a majority of workers had voted in favour of the strike. A labour leader in the border city of Matamoros that has urged workers to strike for higher wages, was arrested for not paying his taxes, and the strike called off.

Ironically, Mexican labour laws go much further than US laws in defending labour rights – guaranteeing the right to annual leave, profit sharing, three months maternity leave, generous severance payments and in disallowing factories from replacing striking workers. But the laws are so complex, that full compliance is difficult.

By forcing Mexican companies to compete under free trade, Nafta may in fact lead the Mexican government to reform the labour law, and strip some of the legal protections offered to workers. Government officials and businessmen argue that the labour law over-regulates the labour market, and is an obstacle to productivity.

The environmental accord is tougher than the labour one, partly because environmentalists were closely involved in drawing up the drafts to the accord.

There was also a greater willingness on behalf of Mexico and Canada to make concessions in the environment, a politically and economically less sensitive area than the labour market.

The Mexican government has been stepping up its enforcement of environmental laws lately, but independent reports suggest there is much to be done.

A study released last year by the US General Accounting Office found that none of six in-bond plants that were questioned along the US-Mexican border had complied with the necessary Environmental Impact Statement before setting up their factories.

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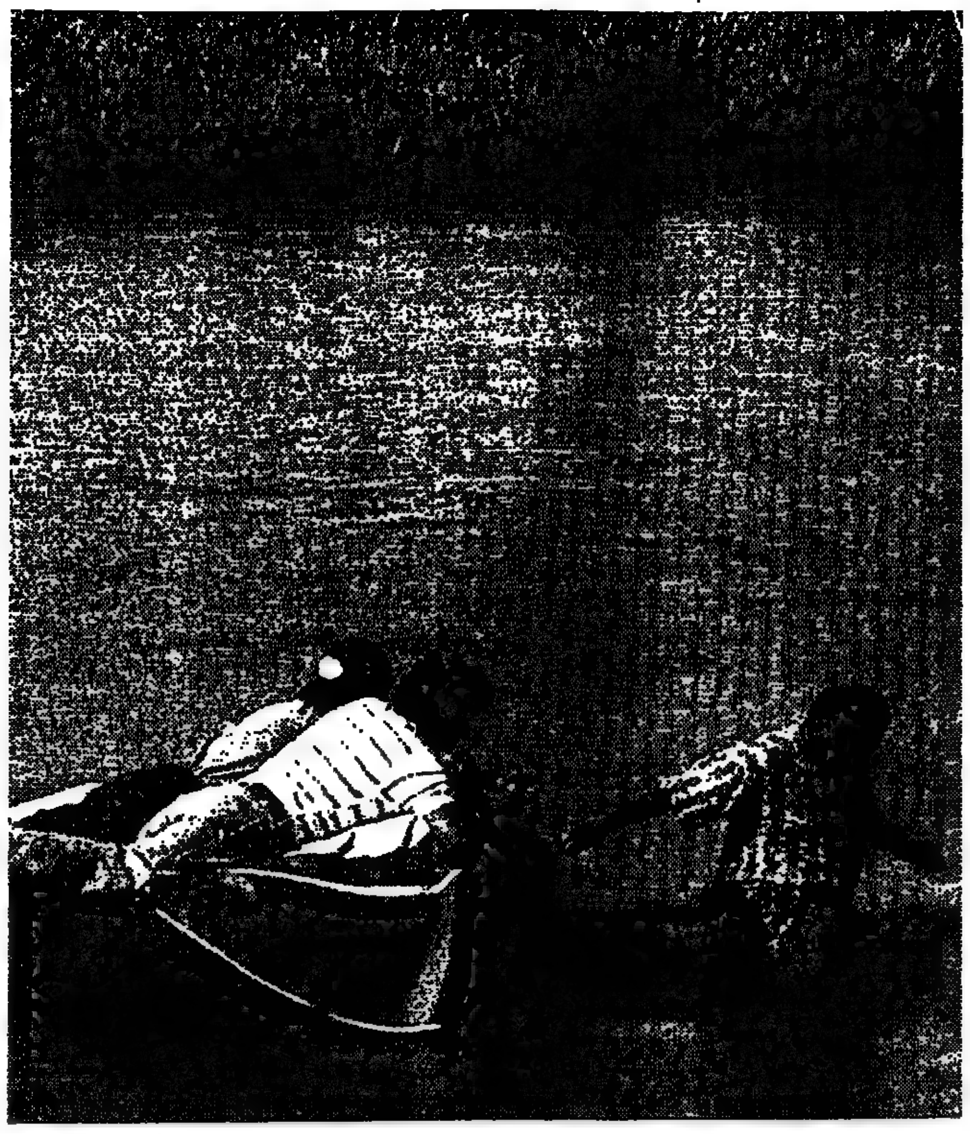


MEXICAN migration to the US shows little sign of falling significantly, in spite of more border patrol agents, fences and other mechanisms to keep immigrants out. According to the US Immigration and Naturalisation Service, the number of immigrants apprehended along the border rose to 1,203,754 in the 12 months to October 1993, from 1,146,598 in the same period the year before. While such figures overstate the number of immigrants, since many will be caught crossing several times, the Colegio de la Frontera, a leading research institute in Tijuana, estimated around 300,000 immigrants illegally entered the US last year from the border. The picture shows would-be immigrants crossing the Rio Grande. President Carlos Salinas likes to argue that Nafta will provide Mexicans with jobs at home, and thus lower migration to the US. However, academic evidence is unclear. The restructuring in Mexico's economy that is likely to be wrought by Nafta may in the short term increase migration, especially from the rural sector.

Kidnapping has become increasingly common in the past year, writes **Damian Fraser**

Rich pickings for criminals

ON A Saturday in June Eduardo Creel, a successful Mexican banker, was opening the gate to his country house, when two young men seized him, took him to a nearby forest, chained him to a tree, and left him without food and water.

Mr Creel was eventually released six days after his capture. What was perhaps most unusual about the kidnapping was the small amount of the ransom – about $300,000, according to press reports. The kidnappers apparently did not know that Mr Creel, who has just formed a new bank Grupo Financiero del Sureste, could have afforded much more.

Kidnappings such as Mr Creel's have become increasingly common in Mexico in the past year, as criminals have found it perhaps the easiest and quickest way to make money fast. Epoca magazine cites an official report which estimates at least 88 other Mexicans were kidnapped in the first seven months this year for a total ransom of about $90m. This is almost nine times more than the amount stolen in bank robberies last year.

In September alone, El Norte newspaper reported that Daniel Wong, a businessmen from Tijuana, paid $700,000 for his release; Vicente Robles Villa, a fruit farmer from Chihuahua, paid $400,000; Rodolfo Gamboa, son of a prominent businessmen in Duranago, paid $600,000. It is unclear whether two other businessmen kidnapped in September, Jorge Morales from Cuernavaca, and Andres Castaña have been freed.

The spate of kidnappings has started to worry Mexico's rich, who are among the least security-conscious of Latin America's wealthy people. Now, however, increasing numbers are beginning to hire bodyguards or take other preventive measures. Even foreign businessmen, who up to now appear to have been safe, are taking precautionary steps, according to Grupo Fairfax de Mexico, the leading international security firm in Mexico.

"This year more than ever before people are starting to wake up," says Michael Hershman, president of Fairfax de Mexico. "At the beginning, the Mexican attitude was very macho. While it has not completely changed, we have noticed people feeling vulnerable." Fairfax says its personal security business in Mexico has more than doubled in the past 18 months.

> At least 89 Mexicans were kidnapped in the first seven months of this year

The problem is at its worse in rural states away from Mexico City, where lawlessness and disparities in wealth have long made kidnapping a highly attractive business. A long report in the El Norte newspaper cited some 183 kidnappings in the rural state of Michoacan alone last year, of which some could have been drug or politically related.

Kidnapping has proven so lucrative mainly because of the low risk of being caught, a result of police inefficiency and corruption. "Once the criminals are aware that you pay and that there is no follow-up organisation, then the kidnappers are going to have a field day," says Mr Hershmen.

Under Mexican law, families do not have to inform the police of the intention to pay a ransom, and such is the low esteem in which the Mexican police is held, many do not tell. The effect is that unlike in say the US, when the FBI is called in automatically in the event of a kidnapping, in Mexico there is often little police follow-up, or investigation.

Police or former policemen are also believed to have been involved in many kidnappings, according to a government official. The government attributes this in part to its anti-corruption drive, that has led to hundreds of senior policemen being fired. The rejected police have apparently used their contacts, access to arms and intelligence, to protect or lead groups of kidnappers.

Occasionally policemen have been arrested for kidnapping. Four policemen have been detained for kidnapping Juan Cuevas Calderón, a car dealer, on February 2. The policemen are alleged to have arrested the car dealer on trumped up charges, but to have promised to release him if he paid about $200,000. The car dealer reportedly finally gave them about $8,000, a car and a van. When free the car dealer reported them to higher authorities, who then pressed charges.

Recently, there has been speculation that Mexican kidnappers have joined forces with international groups, such as Central American guerrillas or Basque terrorists. Two months ago a list of 150 rich Mexicans thought worthy of kidnapping was found in Nicaragua beside an arms stash, believed to have been left by a faction of the FMLN guerrilla group of El Salvador.

The list, published by the Nicaraguan newspaper Barricada, included several Mexican billionaires such as Mr Emilio Azcárraga, the owner of Televisa, and Mr Carlos Slim, the head of Telefonos de Mexico. The Mexican government took it seriously and sent an official to Nicaragua to discuss it with the interior ministry, according to Epoca.

There have been further rumours that the Basque terrorist organisation ETA was behind the kidnapping of some rich Mexicans. While a government official says there is no evidence of this, the international reach of some Mexican kidnappers is impressive.

Two years ago Juan Gutierrez Cortina, the son of the owner of the private construction company Gutsa, was kidnapped, and his brothers were sent to Spain to receive instructions from the kidnappers, and then to Brazil to make the $15m payment. Luckily for the family finances, Mr Gutierrez Cortina escaped just before the ransom was paid.

Reform awaits its reward

Continued from page 1

omists in Mexico are beginning to see the power of the executive as an obstacle to further development.

In a number of areas, flaws that stem from the autocratic nature of Mexican government are seen as having important economic consequences. The fact that the judiciary is subordinate to the executive underlines the weakness of the rule of law, and reinforces the discretionary and arbitrary nature of judicial decision-making. This not only increases cynicism about the legal system, it makes problematic the enforcement of contracts in Mexican courts.

Furthermore, it means there is no guarantee that intellectually-sound, well-drafted laws – for example, that on competition policy which came into force this year – will ever be executed in practice, or that those with friends in high places will not be able to circumvent them.

The next stage of development "has to do with creating a proper legal system, developing the accountability of government and making it possible for small companies to prosper", says Mr Luis Rubio, head of a development research group in Mexico City.

> Privatisations have enabled the government to lower its budget deficit and have helped it to finance an anti-poverty programme

The importance of a functioning legal system as a countervailing influence to government has not been diminished by the Salinas administration reforms which have reduced the size of the state. Privatisations have enabled the government to lower its budget deficit to tackle inflation and have helped it to finance a more effective anti-poverty programme, but they have not spread economic power. "I'm concerned about the creation of new vested interests, a new oligarchy," says Mr Rubio.

Furthermore, partly because the judicial system does not have a role in calling government servants to account, corruption in government remains an important issue, and not one merely restricted to its lower echelons. When an agent acting for IBM claimed this year that he was asked for a bribe to secure an air traffic control contract, his allegations were never proved but he was widely believed.

Some senior government officials believe strongly that the weakness of the legal system is an important economic problem that will have to be addressed by the next administration. Meanwhile, the government has begun to address other economic constraints. For example, bank privatisation does not seem to have ensured full competition in the banking system, even though there are 18 banks. The high cost of credit is one of the main constraints to the development of small- and medium-sized business. The government has started to attack this – in part by increasing competition from banks outside Mexico – but nobody believes a solution will be rapid.

Furthermore, while efforts to deregulate at a federal level have been impressive, there has been much less change in state and municipal deregulation. Mr Jaime Serra Puche, trade and industrial development minister, says: "We have been successful at the federal government level, but have a lot to do at the state level. At the local level we have not been that successful."

Other officials see the labour law and the social security legislation as in dire need of change. "The social security system is the time bomb for the next administration," said one senior official.

The incomplete nature of reform at a microeconomic level is often offered as an explanation of why growth has not been faster: growth of less than 2 per cent will generate this year a current account deficit of $23bn, 6 per cent of GDP.

A further explanation for slow growth – not necessarily contradictory – is that the government and the private sector underestimated the inefficiency of the economy before the it was opened to the outside world.

This has rendered the existing capital stock obsolete far more quickly than expected: growing against this backdrop is rather like rowing against the current.

Yet mounting evidence of increased productivity suggests reform has not been in vain.

Mr Salinas said this month that labour productivity had increased by 19 per cent in the last three years.

Yet, with or without Nafta, Mexico is still likely to remain dependent on foreign capital for some time to come. In reality, this leaves little room for manoeuvre in macro-economic policy for any future government.

"On the economy, there is little that they can tinker with because the markets will react the minute they perceive that reform is threatened. The Mexican economy is like a bicycle: if they don't keep pedalling they will fall off," says Mr Rubio.

Asked how he wants to end his presidency, Mr Salinas replied: "I'm working towards ending my administration with economic growth, with price stability and with a social consensus that would confirm that it was worth the process of reform to which we have been committed in the last five years."

Achieving this will depend in part on Nafta's ratification. History may show Mr Salinas as having exceeded expectations in his pursuit of economic reform.

Politically, however, he will probably be seen as being more firmly in the PRI tradition than he was often perceived, certainly outside Mexico.

He has used fully the powers of his office in this most centralised of states and his concessions to opponents have emphasised, rather than tempered, the continuing power of the executive.

If, as expected, he follows convention, he will choose his party's candidate for the elections scheduled for next August.

It seems likely – though not inevitable – that the fate of Nafta will be decided before he has to make the choice.

> The incomplete nature of reform at a microeconomic level is offered as an explanation of why growth has not been faster

While education minister, Mr Ernesto Zedillo, is regarded by some as an outsider with a good chance, there are three front runners: Mr Manuel Camacho, the mayor of Mexico City, finance minister, Mr Pedro Aspe, and Mr Luis Donaldo Colosio, the social development minister.

Mr Camacho is known to favour political reform and is regarded as a political conciliator; his drawback is that he is regarded, rightly or wrongly, as likely to frighten foreign capital.

Mr Aspe is seen as ensuring that Mexico remains in the good books of international investors, but he is viewed in the party as an economic fundamentalist and therefore somewhat dangerous. Party officials also suggest he would be the weakest of the main candidates – as a campaigner.

Conventional wisdom has it, however, that Mr Luis Donaldo Colosio, the social development minister, is the most likely to succeed Mr Salinas. Mr Colosio is viewed as Mr Salinas's "son", the man the president can most trust.

Mr. Colosio is taken as the candidate with neither the drawbacks of Mr Camacho nor of Mr Aspe, and the one most likely to carry Mr Salinas's style of government to the new century.

AUSTRIA

Wednesday November 10 1993

EC membership? Uncertainties persist: Page 3

The coming year will see a national election, four provincial elections and probably a referendum on EC entry. Not since the 1950s, says **Ian Rodger**, has the country been faced with the prospect of such profound change within such a short period of time.

New voters hold the key

AS A rule, things do not happen abruptly in genteel Austria. But people may well look back in a couple of years and be surprised by how much and how quickly the country has changed.

By then, Austria could be a member of the European Community and an active participant in pan-European security organisations and United Nations peacekeeping efforts.

By then, the cosy political alliance between the Social Democratic party (SPO) and the conservative Austrian People's party (OVP) may have collapsed, as a new generation of voters appears to be abandoning traditional loyalties.

The country's leading industries and banks could be fully privatised and freed from the stifling practice of having to assign top jobs on the basis of political suitability. The industrial structure will certainly have changed, as low value-added businesses are forced to migrate east.

By then, Vienna, a sleepy and marginal city since the collapse of the Austro-Hungarian empire in 1918, could again be a vibrant centre of a vigorous central European region.

Not since the 1950s, when it managed to see off the four occupying allied powers, has Austria faced the prospect of such profound changes within a short period of time.

The country's new coming of age dates symbolically from the retirement of Mr Kurt Waldheim as national president in July, 1992. As long as Mr Waldheim, who concealed his service in a German Wehrmacht unit that was implicated in second world war crimes, was in office, Austria was diplomatically crippled.

His successor, Mr Thomas Klestil, a former senior diplomat, has moved rapidly in the past year to re-establish ties with countries that boycotted Austria, and the government has assumed a higher profile generally in international affairs.

In June, Vienna hosted the UN human rights conference, and earlier this month it welcomed leaders from 32 countries to a summit meeting of the Council of Europe. Also in June, Mr Franz Vranitzky, the chancellor, became the first Austrian head of government to visit Israel; and he made clear that this was "an important and significant signal to the world of how we Austrians see ourselves and our history."

In another landmark move, Mr Werner Fasslabend, the defence minister, went to Brussels last month to discuss Austria, hitherto rigidly neutral, taking observer status in the Western European Union.

Now the country faces a year of momentous political decisions, with a national election, four provincial elections and probably a national referendum on EC entry in prospect.

Both Austrian and EC leaders are publicly committed to completing negotiations on EC entry by early next year. The idea is that an agreement could be approved by the European Parliament before that body dissolves in the spring, and then could be submitted to the Austrian people in a referendum later in the year.

The timing of the referendum is a delicate matter. Opposition to the EC is still strong, so if the national election is held before the referendum, EC entry could become a prominent and divisive issue in the election campaign.

On the other hand, if the referendum is held first and a majority rejects EC membership, the ruling coalition, which is solidly in favour of membership, would be crippled heading into the election campaign.

It is by no means clear that the grand coalition can survive the next election, anyway. Recent elections and polls indicate that the popularity of both the SPO and the OVP continues to fall, while the three smaller parties, the right-wing Freedom party, the Greens and the new Liberal Forum, are gaining ground.

"Anything can happen," says Mr Erhard Busek, vice-chancellor and leader of the OVP, junior partner in the coalition. The OVP's vote share tumbled from 41 per cent in 1986 to 32 per cent in 1990, and Mr Busek is resigned to further losses next year.

But he believes the coalition will survive. "The combination of the other parties could not make a government, either in numbers or in ideology," he says. The ever-cautious Mr Vranitzky says only, "Some Sunday night in October we will see."

Since the last election, the main political issue in Austria has been immigration, as people have become more and more anxious about the flood of immigrants and refugees from eastern Europe. Immigrants and refugees, both legal and illegal, now account for about 9 per cent of the Austrian population, and are concentrated mainly in Vienna and other cities.

Mr Jörg Haider, leader of the Freedom party, has won immense popularity by demanding that the government get tougher on immigrants. His party's share of the vote in recent provincial elections has risen to nearly 20 per cent, double its mid-1980s appeal.

However, it looks as if the Haider advance has stopped. His petition campaign in January, aimed at forcing the government to outlaw immigration, was soundly defeated. A month later, he was further embarrassed when a few of his more liberal-minded colleagues defected to set up the Liberal Forum.

In recent months, the government has taken the remaining wind out of his sails by putting a temporary freeze on immigration, ostensibly because of the slump in the economy.

The next indication of the strength of the immigration issue and of Mr Haider's popularity will come in March, when he contests the provincial election in Carinthia, where he used to be governor.

In spite of the proximity of all these votes, there is as yet little evidence of a pre-election atmosphere in Austria. Perhaps the rather dull outlook for the economy has put a damper on political sentiment.

In its latest forecast on October 1, the Austrian Institute of Economic Research (WIFO) said the economy would contract by 0.7 per cent this year and grow by only 1.5 per cent next year.

"It does not appear that the bottom of the economic cycle has been reached," WIFO reported glumly, pointing to continuing weakness in the vital German market for Austrian exports.

Another source of disappointment has been dramatic reverses recently in the nationalised industries. Austria Metall, the aluminium group, looks set alone to lose a numbing Sch13bn by the time its affairs are restored to order next year.

The silver lining to these reverses is that the government has at last become committed to selling off its still vast holdings in leading industrial and banking groups, and to creating fair and open capital markets.

The Austrian business community has warmly embraced these policy changes. A new generation of ambitious, outward-looking managers is emerging, eager to compete in open markets for both business and investors.

Within a couple of years, it will be interesting to see how well they are doing.

SCHONBRUNN Palace, in suburban Vienna, one of the jewels among Austria's cultural assets, sags under the weight of more than 25,000 visitors a week. Like many other national assets, it is being squeezed these days to produce profits. Last year, the 18th century palace was put under private administration and the change can already be felt. Last summer saw spectacular outdoor performances of Mozart's Don Giovanni and Requiem, and the frequent rental of its baroque dining halls for commercial functions. Empress Maria Theresa, who was very fond of the palace and decorated it, would have been appalled. Picture: Andrew Eames

The economy: recovery largely depends on Germany, says **Patrick Blum**

Inflation still proves stubborn

THE SUDDEN onset, at the end of last year, of the country's worst recession for more than a decade took most Austrians by surprise, and caused an uncharacteristic outpouring of gloomy forecasts.

But while the recession was real enough, causing a 4 per cent decline in industrial output and an even sharper 8 per cent drop in manufacturing exports in the first half of 1993, its impact has been far less pronounced than for most of Austria's OECD partners.

Austria's recession came later, and the country is likely to emerge from it more rapidly than its western neighbours, though recovery will largely depend on developments in Germany – Austria's most important trading partner and its main source of revenues from tourism.

As hopes receded that Austria would somehow avoid the Europe-wide recession, growth estimates were hastily revised downwards. Gross domestic product was forecast to decline by around 1 per cent this year, though economists now believe the economy has bottomed out and that GDP will fall by a more modest 0.75 per cent.

"The decline stopped in the spring, and since then we've been stagnating. Industrial exports have been worse hit, but construction, tourism and private consumption have held up," says Mr Helmut Kramer director of the Austrian Institute of Economic Research (Wifo).

Several factors exacerbated the downturn. After a rapid rise in exports to the former communist states, rising competition from low-cost producers in these countries began to take its toll on Austrian manufacturers, forcing the government to impose import restrictions on sensitive products such as cement and fertilisers. Exporters also suffered from the effective revaluation of the Schilling last autumn, following the devaluation of several European currencies.

The consequence was a further deterioration in the trade balance, which is forecast to show a Sch109bn deficit, compared with a Sch106.4bn deficit last year. Exports will fall by 5.5 per cent and imports by 3.5 per cent, but the current account is expected to show a small surplus as income from tourism and services offsets the deficit in traded goods.

Inflation is also proving more difficult to tame than anticipated. Consumer prices are set to rise by 3.5 per cent this year, after peaking at 4.1 per cent in 1992, though that included about half a percentage point caused by changes in indirect taxation. Inflation should fall to around 3 per cent next year, thanks to moderate wage rises.

A resilient budget deficit adds to inflationary pressures. Lower tax revenues, caused by the recession and higher spending on social security and unemployment benefits, will increase it from Sch62bn in 1992 to about Sch80bn, representing about 3.8 per cent of GDP this year.

Hoped-for relief, in the form of revenues from privatisations, have not materialised as the process has faced repeated delays. But a renewed crisis at Austrian Industries, the large state-owned industrial group, is likely to prompt the government to sell off a large part of it next year.

The government remains committed to its deficit reduction strategy, albeit at a slower pace, and Mr Ferdinand Lacina, finance minister, hopes to keep the deficit below Sch80bn next year. This may prove difficult if the recovery is delayed by external factors. "We have to be prepared for another year of weak economic performance. The effects of recession will also be felt in 1994, but we have to put on the brakes," he says.

But there will be no shock treatment with dramatic cuts in spending. "Lower deficits will be possible when the recovery comes," Mr Lacina says. Social programmes to soften the recession's impact will be maintained, and the government will seek to encourage employment by accelerating planned spending on infrastructure. "If you have a high number of unemployed at the start of an economic upturn, it's not easy to bring [the number] down." Better to try to control unemployment before a recovery, even if that means some additional costs, he suggests.

Nevertheless, unemployment is rising and is expected to be 4.7 per cent of the workforce by the end of this year, according to OECD measurements, and around 7 per cent based on the narrower Austrian definition which does not include the self-employed.

The fear of job losses and competition from low-paid foreign workers, who now account for 8.5 per cent of the workforce, has encouraged wage moderation. The example of the metal workers' unions, which recently agreed to wage rises of 2.9 per cent for 1994, is expected to be followed by other unions.

Mrs Maria Schaumayer, president of the Austrian National Bank, says low wage rises, combined with greater flexibility to determine the extent of pay increases at the level of individual enterprises, will have a significant effect on small and medium-size companies which are not directly represented in the national wage negotiations. "It gives a safety net [for workers], together with much needed deregulation [for employers]," she says.

Growth is forecast to resume next year with GDP rising by only a modest 1.5 per cent, but Mrs Schaumayer sees three reasons for optimism and a "velvet landing". Private consumption will be encouraged by tax reforms; construction activity has recovered from its winter lull; and exports are picking up again. Austrian companies are also increasing their investment abroad, improving their competitiveness in foreign markets. "This is an ongoing trend. Most investments seem to be profitable, and the propensity to internationalise is rising," she

Continued on the next page

KEY FACTS

Area	83,850 sq km
Population	7.9 million (1992 estimate)
Head of state	President Thomas Klestil
Currency	Schilling (Sch)
Average exchange rate	1992 – \$1=Sch10.99; £1=Sch19.35 October 26, 1993: \$1=Sch11.54; £1=Sch17.53

ECONOMY

	1992	Latest*
Total GDP (\$bn)	184.6	n.a.
Real GDP growth (%)	1.5	-0.9
GDP per capita (\$)	23,427	n.a.
Consumer prices (% change pa)	4.1	3.5
Ind. production (% change pa)	-0.9	0.7
Unemployment (% of lab force)	6.0	7.1
Reserves minus gold (\$bn, end period)	12.4	12.9
Narrow money growth (% pa)	6.2	8.2
Broad money growth (% pa)	4.2	5.4
Discount rate (%, end period)	8.00	6.00
Govt bond yield (%, end period)	7.56	6.39
FT-A index (% change over year)	-10.5	+22.2
Current account balance (\$bn)	-0.7	-0.7
Trade balance (\$bn)	-8.8	n.a.
Main trading partners (1992, % by value)	Exports	Imports
Germany	39.8	42.9
Italy	8.8	8.6
Switzerland	5.9	4.0
EC	66.1	67.9
EFTA	8.6	6.8
Eastern Europe	11.6	7.3

*1993 figures: Industrial production (July); CPI, unemployment, reserves, discount rate (August); bond yield (September); GDP growth, current account (Economist Intelligence Unit forecasts for whole year); money growth (first half average); FT-A World index (% change from January 1 to September 30, 1993).

Source: IMF, Datastream, Economist Intelligence Unit

Politics: **Patrick Blum** looks ahead to a year that will bring a series of elections

Testing time for the coalition

NEXT YEAR will be a lively one in Austrian politics. With four provincial elections, a general election and the possibility of a referendum on European Community membership – coinciding with the arrival of a new party that threatens to draw support away from the establishment – politicians will be more than usually busy.

The voting season kicks-off in March, with provincial elections in Carinthia, Tyrol and Salzburg providing an important test of the electorate's mood. The vote in the southern province of Carinthia will attract most attention. There, Mr Jörg Haider, the controversial leader of the right-wing Freedom party (FPO), will try to recapture his governor's chair after being forced out of it more than two years ago following a speech in which he appeared to endorse Nazi employment policies.

Mr Haider's blend of youthful populism and nationalism has been a magnet for those disenchanted with the political establishment. After he had become party chairman in 1986, the FPO's share of the vote rose from under 10 per cent to almost 17 per cent in the 1990 general election. There are signs that support for Mr Haider may have peaked, and a clear victory in Carinthia would give him a fresh impetus for the general election that is due in October at the latest.

At stake will be the maintenance of the the current ruling "grand coalition" of the Democratic Socialist party (SPO) and the conservative People's party (OVP), both of which have seen their popularity decline in recent years. In addition to Mr Haider, they now face another challenge from the newly created Liberal Forum. "The liberals are a threat to all of us, but not to Haider," says Mr Erhard Busek, vice-chancellor and OVP leader.

The Liberals make strange opponents. They have only the bare bones of an organisation (to be fleshed out at their first national congress in November), little money, less than a handful of members of parliament, and they have yet to agree on a programme.

But this did not prevent them from making a dramatic entrance on the political scene by winning 5.1 per cent of the vote in last May's provincial elections in Lower Austria, giving them three seats in the provincial parliament. Their success, less than three months after the party's birth, stunned the political establishment.

The Liberals enticed voters away from the government parties, drew support that otherwise might have gone to the FPO, and won an unusually high proportion of women voters. Ms Heide Schmidt, the Liberal leader, hopes to repeat the performance in forthcoming elections. Some pollsters forecast that the Liberals could win up to 10 per cent of the vote in the general election, giving the party 15-20 seats, and making possible a coalition with the SPO which currently holds 79 of the parliament's 183 seats.


Erhard Busek: 'no alternative to the grand coalition'


Heide Schmidt: has gained national respect


Jörg Haider: hopes to regain governor's chair

Ironically, it was Mr Haider who precipitated the creation of the Liberal Forum which is now stealing some of the wind out of his sails. His launch of an inflammatory anti-immigration campaign in January was the last straw for a small band of liberals still in the FPO. Most liberals had either been forced out of the party or left in disgust at Mr Haider's policies. Under the wing of Ms Schmidt, who gained national prominence and respect as FPO candidate in the 1992 presidential elections, a small group decided to form their own party.

The OVP stands to lose most from a liberal breakthrough, though Mr Busek says there are no realistic alternatives to the current grand coalition. The coalition is not popular with all conservatives, some of whom have toyed with the idea of an alliance with the Freedom party. But Mr Busek is adamant that an OVP coalition with Mr Haider's FPO is out of the question on political grounds, while one with the Liberals could not gather enough support in parliament. The OVP has 60 seats in parliament, and on present standing looks unlikely to improve much on that score. Mr Busek says the conservatives will campaign for the maintenance of the coalition with the socialists as the best guarantee for stability and security.

Ms Schmidt believes another grand coalition is the most likely outcome. "It's not a good thing [for Austria], but it's the reality." She says the coalition failed to carry out necessary reforms. "Nothing has happened, only cosmetic changes."

Mr Franz Vranitzky, the chancellor and SPO leader, dismisses the suggestion. "There have been more reforms in the past three years than at any other time [in modern Austrian history], but not all necessary reforms are popular." He believes dissatisfaction with the ruling parties is part of an international trend affecting all mainstream parties.

Before the general election, in June or July, Austrians may have to vote in a referendum on EC membership – provided negotiations are concluded rapidly enough. If not, the referendum will take place in 1995. The ruling parties and the Liberals firmly support membership, with opposition from the Greens, and an ambivalent attitude from Mr Haider's FPO. But in spite of a cooling in popular enthusiasm for the EC, membership should not be a major issue in the election, unless the negotiations turn sour. "I don't think it makes sense to speculate. We must concentrate on the negotiations and do our homework," Mr Vranitzky says.


Ferdinand Lacina confesses that he has had a change of mind about state albatrosses Terry Kirk

Ian Rodger examines industrial policy

State ventures flounder

WHATEVER shreds of credibility Austria's nationalised industries retained, following the financial collapse of the old Voest-Alpine steel and engineering group in 1985, have been ripped away in the past few months.

Even partially privatised OMV, the previously high performing and much respected integrated oil and chemicals group, has come unstuck. A forecast of modest profits made by management at the end of April had to be withdrawn in early September, when it became obvious that a Sch4.7bn loss for the full year loomed.

But the worst disaster has been at Austria Metall (AMAG), the integrated aluminium group within the Austrian Industries combine. Given their heads in the late 1980s, AMAG managers invested heavily in both upstream and downstream ventures, leaving themselves with no resources to cope with the slump that has hit the world aluminium sector in the past two years.

Over the past year, assessments of the scale of the debacle at AMAG have risen by the month. In the typical Austrian way, these have trickled out by way of leaks to the press. First, it was Sch3bn, then Sch4bn, then Sch7bn. The final bill to close down most of AMAG – for that is the only solution – seems to have topped out during the summer at Sch13bn.

The thoroughly embarrassed government – both its Democratic Socialist and Conservative wings – now seeks only to get rid of the albatrosses that still cling heavily to its neck as quickly and quietly as possible.

"What was an asset for the trade unions and the Democratic Socialist Party has become a burden," Mr Ferdinand Lacina, the socialist finance minister, admits.

Believers in state involvement in industry in Austria are now exceptionally thin on the ground. Mr Lacina makes no bones about his own crossing of the ideological Rubicon. "I have to confess that I really changed my mind," he says.

The minister responsible for state industries in 1985, when an over-exuberant Voest-Alpine trading subsidiary lost Sch1bn speculating in oil contracts, Mr Lacina has come to believe that the state is inevitably handicapped as an owner of industry.

"It is not easy for the government to have an arm's length relationship with these companies. No politician could have assessed the value of AMAG's investments. But now politicians are blamed," he says.

It would be difficult to exaggerate the importance of this watershed. State ownership of industry has been a way of life in post-war Austria, initially because it was the only way the Russian occupiers, fearful of re-nazification, would allow the country to recover control of its production assets.

Thus, virtually every key industrial sector has been controlled directly by the government or by one or more of the leading banks, which themselves have been controlled in the public sector.

Gradually, enterprise became part of the infamous *Proporz* system, by which the Socialists and Conservatives shared out jobs among their supporters, and thus a way of life.

Today, while the *Proporz* system is still in effect at the highest levels of industry and finance, it has collapsed at most other levels. In a cold world of free and open competition, competence and qualifications have come to be seen as more important than political affiliation.

Thus, the political parties have less and less interest in clinging on to these businesses, regardless of their financial performance.

Privatisation has been a live theme in Austrian politics since the mid-1980s. An initial wave saw the flotation of significant minority stakes in Creditanstalt, the former Länderbank, OMV and the utilities Verbund and EVN. But a nervous Austrian establishment made sure that the state remained firmly in control.

Hopes for a more substantial push were vested mainly in Austrian Industries, the vehicle that had been established in 1986 to recapitalise and restructure Voest-Alpine.

AI had a very good run for a few years, eliminating thousands of redundant jobs, selling off several non-strategic holdings and emerging into profit for three years up to 1991. As early as 1989, plans for privatisation were being prepared, and even a convertible bond issue was launched.

Then suddenly all went sour again: first, because OMV, which had also been put under AI's wing, tumbled into loss in the first half of last year. Officials hoped they could preserve AI's potential saleability by putting OMV back under the direct control of the Austrian state holding company, Oesterreichische Industrieholding (OIAG). But then came the AMAG debacle.

Now the rush is on to sell off whatever can be sold.

In the past year or so, two sparkling subsidiaries of AI, Voest-Alpine Eisenbahnsysteme and Austria Mikro Systeme, have been successfully floated on the stock market, as has a minority of shares of Flughafen Wien (Vienna airport).

Negotiations are at an advanced stage for a foreign government or integrated oil company to take a strategic stake in OMV, although putting a valuation on it has become problematic in the wake of the oil group's latest setbacks.

And a sale of the government's 49 per cent stake in Creditanstalt is thought to be imminent.

AI itself is being readied for flotation. Stripped of its AMAG burdens and other non-core subsidiaries, it would be a strong steel and steel-engineering business that could attract international investment interest, London investment bankers S.G. Warburg said last month.

The key, however, is for the government to underwrite the AMAG burdens until proceeds from the sales of other assets can cover them. That is a hot potato in Austrian politics, as Conservatives fear the Socialist-led coalition government will go back on its promise not to pour any more public money into the nationalised industries.

"It is very clear that there is a credibility gap," Mr Lacina says. "We will have to make sure that the guarantee is written very carefully."

Even when and if all these privatisation projects are completed, much more needs to be done to untangle the close links between Austrian industry, banks and government. The national government still owns a tobacco monopoly, a casino operator and the national telephone and railway systems.

The big banks still have controlling stakes in several leading industrial companies, although Creditanstalt has recently committed itself to getting rid of most of its holdings over a five to 10 year period.

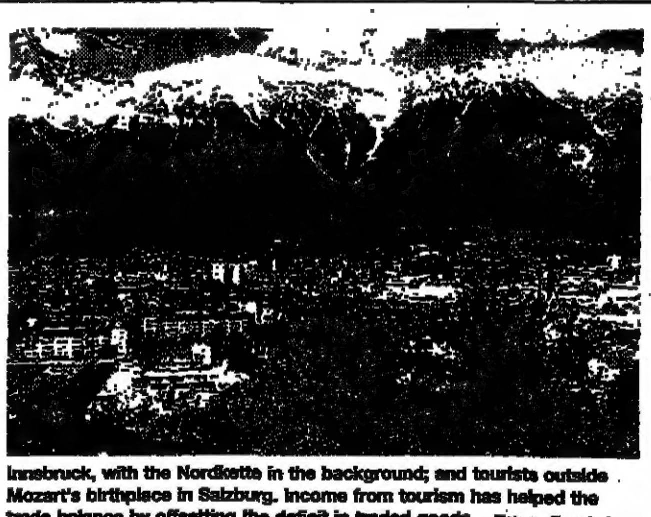
Then there is the city of Vienna with vast holdings in a bizarre mixture including Bank Austria, the country's largest bank, and chains of cinemas and restaurants. Vienna is still run by old-style socialists and shows no sign of bowing to the privatisation fad.

Inflation remains stubborn

Continued from previous page

says.

The tax reforms that will come fully into force on January 1 are expected to stimulate business and boost consumer demand, hopefully leading to a rise in investment which is set to decline by around 3 per cent this year. The reforms eliminate several profit-based taxes, raise the main corporate tax from 30 to 34 per cent, and simplify other taxes. On average, the overall level of profit-based taxes will go down by 10 per cent. Officials believe the relatively low level of corporate taxation should encourage foreign investment.



Innsbruck, with the Nordkette in the background; and tourists outside Mozart's birthplace in Salzburg. Income from tourism has helped the trade balance by offsetting the deficit in traded goods Pictures: Tony Andrews

Mr Kramer says there has been a steady improvement in the competitive position of Austrian companies in the open sectors of the economy. "The productivity of capital is two percentage points higher in Austria than in Germany," he says. But further improvements and restructuring will be necessary to meet rising international competition and the challenge posed by low-cost producers in the former communist countries.

Mr Johann Farnleitner, deputy general secretary of the Federal Economic Chamber, believes the opening up of eastern Europe offers a unique opportunity. He says Austrian companies will gain competitiveness by shifting part of their production to neighbouring low labour cost economies. Already some 8,000 Austrian companies have joint ventures in the region. Among OECD countries, Austria has the highest share of its trade with the former communist countries, which account for 7 per cent of its imports and 12 per cent of its exports. Mr Farnleitner believes trade with central and eastern Europe could grow to 15-20 per cent of total Austrian trade in a few years' time.

Meanwhile, the recession has encouraged businesses to intensify efforts to adapt to the new environment, and Austria's bumpy ride at the bottom of its economic cycle will be made smoother by policies emphasising consensus. "We are gradualists. It is more sustainable," says Mrs Schaumayer.

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THE END of the Cold War and moves towards greater integration in the European Community have created radical new challenges for Austria. How it faces up to them will shape its prospects for years to come.

Foreign policy: many voters are undecided about EC membership

An attractive deal is needed

Within a relatively short time, the country will have to decide whether or not to join the Community. The main political parties favour membership, as does about a third of the electorate; but many voters are still undecided, so the government will need to secure a sufficiently attractive deal from Brussels to win Austrian hearts and minds. The outcome of a referendum, next year or in 1995, is expected to be favourable, but there are many uncertainties.

"We've been kept waiting for such a long time, feelings are no longer ardent," says Mrs Maria Schaumayer, governor of the central bank.

At the same time, policy-makers are reappraising Austria's relations with its former communist neighbours, whose drive towards market economies presents opportunities and dangers. After initial enthusiasm – Austrian exports to the region grew spectacularly, helping to postpone the impact of the world recession – Austria soon found itself besieged by cheap central and east European imports and a flow of refugees. The government introduced protective measures against sensitive imports, and for the first time in decades halted the flow of immigrants.

Chancellor Franz Vranitzky says it was necessary to put a temporary halt to immigration. "It is conjunctural. We had 8-9 per cent of immigrants already, and that is not a low rate by international comparison. We have to provide immigrants with housing, jobs and education."

Politicians are also concerned about conflicts and instability in the region. The wars in former Yugoslavia, and the west's (especially the EC's) ineffective attempts to end the crisis caused dismay in Vienna. The rise of nationalist sentiment worries Austrians brought up to value consensus almost above anything else.

The outlook is not all bleak. Mr Johann Farnleitner, deputy general secretary of the Federal Economic Chamber, which represents employers, is enthusiastic about prospects in what he describes as Austria's historical hinterland. "Eastern Europe presents a unique challenge for us. I am comfortable as far as our immediate neighbours are concerned. Sooner or later they will do very well," he says.

Meanwhile, Austria is vulnerable to competition from low-cost producers. "We're close to a number of producers, and they want to sell things here. It means some products are offered at tremendously low prices," he says. A tonne of cement produced in Austria sells at $90-$100, compared with $30 if produced in Ukraine, and $55-$60 from the Czech Republic. Even efficient domestic producers cannot match such prices.

Relations with former communist neighbours are being reappraised

These problems can be solved by quiet negotiations, encouraging regional producers to raise their prices by guaranteeing them a set volume of sales, Mr Farnleitner says. This is good for producers, as it increases the value of their exports, and it helps to reduce the impact on domestic manufacturers. In the long run, it is also good for industry as a whole, because companies have access to cheaper inputs.

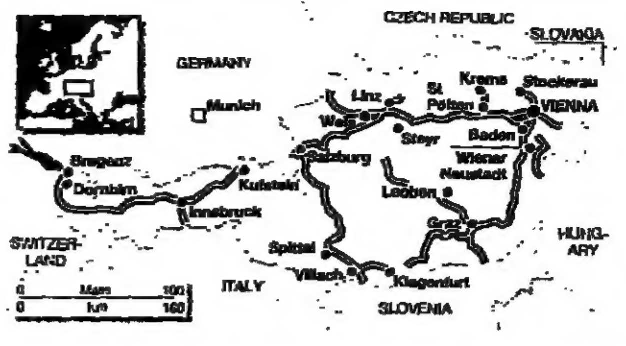
Austria's economy is becoming more deeply integrated with that of its neighbours. It has more than 8,000 joint ventures in the area, including 4,000 in Hungary. It is an important investor in Slovakia, Slovenia and the Czech Republic. Co-operation with these countries raises Austria's competitiveness in world markets – the cost of 25 workers in a workshop in Austria can pay for 200 workers in a factory in Slovakia.

Mr Farnleitner believes Austria's trade with the region could rapidly build up to 15-20 per cent of its total trade.

"We have to live with these countries, and the sooner they get rich, the richer we will get, too. There are 8m Austrians, and 50m neighbours who expect something from us. This is a far greater challenge than joining the European Community," he says.

Relations with the Community, however, will become increasingly important. Austria already has faced an argument with the Community over industrial subsidies, and it is entangled in a dispute over duties on Austrian exports to the EC of products partly made or finished in eastern Europe. The duties add 10 per cent costs for Austrian exporters, Mr Farnleitner says, but the row is unlikely to be resolved until Austria joins the EC.

Negotiations on membership terms have begun in earnest, and Austria hopes they will be completed in time to join on



January 1, 1995, though that may be over-optimistic.

"Negotiations were slow to start, but we are well on our way now," says Ambassador Wolfgang Wolte, who heads the foreign affairs ministry's department for European integration. About half of the main issues have been resolved or are close to resolution, but the hardest part will be over agriculture, transit, and establishment of residences.

■ Agriculture: Austria wants some form of protection/support for its Alpine farmers who, it says, face much more difficult conditions than farmers in the rest of the Community. Some will be worse off as a result of joining the EC, Mr Wolte says. "We'll have to find some common ground. We need to convince the EC that it is more than an economic and agricultural question. It is part of our social fabric. We have to preserve these alpine regions."

■ Transit: This is a very sensitive issue for environment-conscious Austrians. Ideally, the government would like to keep an existing transit agreement, signed concurrently with the treaty establishing the European Economic Area in 1992. Traffic is expected to rise dramatically with Austria's former communist neighbours, and the government hopes it can win support for developing regional infrastructures. Failure to reach an agreement that safeguards Austrian sensibilities about the environment could jeopardise support in the referendum.

■ Residences: Austria wants to limit the right of EC citizens to buy residences in Austria to those who have lived in the country for a minimum of five years. Some provinces want a more restrictive limit based on residence in the province for the previous five years. The fear is that parts of the country that are popular with tourists (the Tyrol, Salzburg, Vorarlberg and Carinthia) could be overwhelmed by the establishment of secondary residences that would destroy the character of the area and push property prices beyond the reach of Austrians.

None of these issues will be easy to resolve, though Austrian officials believe negotiations could be completed by March, allowing a referendum by the summer, before a general election in October. If the negotiations drag on, the referendum will have to wait until after the elections. "We're not giving up the date of January 1, 1995 [for membership]. We'll do everything we can to stick to that target... But in the end, it's not so much the date that matters, but the results [of the negotiations," says Mr Wolte.

Patrick Blum

Immigration

When the curtain lifts

WHEN HUNGARY removed the first piece of the Iron Curtain, on its border with Austria, in mid-1989, it not only put in motion the fall of communism, but also Europe's largest migration wave since the second world war.

Ever since, Austria has become a magnet for thousands of refugees and immigrants from eastern and south-eastern Europe. For them, it is is the first stop on the way to the wealthy west – as Italy, France and Spain are for people from Northern Africa.

As in other European countries, immigration has come to dominate Austrian politics well beyond the scope of the problem.

Some 6.6 per cent of the population, or about half a million people, have foreign passports, many of them guest workers who have lived in Austria for years.

Austria has never had such liberal asylum laws as Germany, where the right to asylum was written into the constitution until last summer. Ever since the Austrian military began guarding the border with Hungary in 1990, officials have said that they have the immigration flows under control. Even so, the market for unskilled labour has been swelled in recent years by job-seekers from eastern Europe, mostly Slovaks, Poles and Rumanians. Pick-pocket gangs from across the border have made petty crime a serious problem in Vienna.

Meanwhile, about 40,000 Bosnian refugees have poured into Austria, and no one expects them to return to their homes in the foreseeable future. Especially in the working-class districts of Vienna, the influx of foreigners has become a symbol of the perils of economic change.

Feeding on fears of crime, unemployment and a growing housing shortage, the right-wing Freedom party (FPO) and its charismatic chairman Mr Jörg Haider have repeatedly played the xenophobic card. The FPO has boosted its share of votes to nearly 20 per cent in recent years, even though a controversial petition drive against immigration failed to garner significant support at the start of the year.

But it has been the Social Democratic party (SPO) which has been the driving force behind curbs on immigration. Worried that its blue-collar voters will desert the party for Mr Haider, the SPO chairman and Chancellor, Mr Franz Vranitzky, has quietly engineered some of Europe's toughest immigration laws, which went into effect last July.

Getting political asylum is now a gamble with very little chance of success, and receiving a legal work permit has become equally difficult. The most controversial aspects of the new bill concern long-term residents who are applying for an extension of their visas. Making a mistake or missing a deadline can result in immediate expulsion.

A widely criticised clause of the new law states that foreigners must have at least 10 square metres of living space per person in order to have their residency permit extended. Given the tight housing situation in Vienna and wide-spread discrimination against non-Austrians, this clause would make more than 100,000 people illegal aliens.

Like Germany, Austria does not grant automatic citizenship to long-term residents, or even to children born in the country. This traditional policy has hampered the integration of foreigners and weakens their ability to seek legal protection.

Several well-publicised cases about foreigners trapped in the bureaucratic maze have caused an uproar over the new law in political and intellectual circles. Key members of the People's party (OVP), the junior coalition partner, have called for a quick revision to eliminate its most vicious elements.

In the forefront of the fight is a broad-based coalition of artists, writers and church leaders, called "SOS Neighbour", which was originally formed to oppose Mr Haider's petition drive. Their anger is now mostly directed against Mr Franz Löschnak, the interior minister and a key aide to Mr Vranitzky.

Opposition has also been voiced by business and industry, which has come to depend on cheap foreign labour. As the number of work permits for foreigners is gradually reduced, many sectors are complaining about a worsening labour shortage.

Sectors such as construction and tourism could not survive without guest workers, executives say. But Social Democrats have held firm on their tough immigration policies, and several figures show their calculation may be right.

The number of asylum seekers had dropped to 3,187 in August, from 13,820 a year earlier, and surveys show broad support for the policy among average Austrians.

Even Mr Löschnak has gained in popularity in recent months. The SPO may lose some young voters to the leftist Greens, who call for a liberalisation of immigration laws, but the party seems to have secured its core working-class constituency.

Löschnak also argues that Austria still hosts more war refugees per capita than any other European country, and individual hardship cases are often settled leniently. Moreover, Austria has avoided the kind of right-wing violence against foreigners that has engulfed Germany over the past two years.

Eric Frey

Interview: **Franz Vranitzky**

'Three years of reforms'

The Austrian chancellor replies to questions put to him by **Ian Rodger** and **Patrick Blum**

Q: The nationalised industries are in trouble again. Is there any chance that the government will bail them out again?

A: I am not open for a bail-out in the old sense, as it was done in the sixties and seventies. We do not help those companies by covering their deficits and letting them return to business as usual.

Q: Is it important to you that Austrians still hold majority control in these companies?

A: It is understandable that the workers in these companies would feel safer if their shareholders were not foreigners. We have to make them understand that this is not the only consideration. There has to be more international co-operation to tap new technological know-how or new markets. And we sometimes have to offer the know-how developed here to others to open new market opportunities.

Q: The government's deficit-reduction plan has been thrown off course by the recession. Will there be further relaxation in the forthcoming election year?

A: I do not believe in a lot of election promises. Our standards of social security, our education system, our ecological standards are all so high that it is not politically necessary to increase them. Let us be glad of that. Probably we could not afford increases.

Q: Your critics say that the present coalition government has been hesitant in implementing reforms. Should there be another coalition after next year's election?

A: This government has brought more reforms in the past three years than any other.

Q: Why then are both ruling parties losing popularity?

A: Not all reforms are popular. I think that mass parties in many countries in Europe face a much tougher challenge. We have called for more individualisation, more open democratic systems, more plebiscites, so we must not wonder that the citizen comes back and uses the opportunities that have been opened. The individual citizen no longer subscribes to a political party as fully reflecting his own thinking as he did earlier in the post-war era: This is not an excuse. I am aware that we have to try harder.

Q: How optimistic are you about completing negotiations aimed at Austria's joining the European Community?

A: The most important point is that we become members by 1996, so that we can not only attend the intergovernmental conference as members, but also participate in the preparatory work. Therefore, I took up the EC's suggestion that we should become members by January 1, 1995. I see no reason why we should not take this date seriously.

Q: Austria has long been an immigration and asylum country, but has recently closed its borders to immigrants. Is this a permanent change in policy?

A: Eight to 9 per cent of the people in this country are immigrants. That is not an extremely low rate by international standards. Some of our new laws aim at keeping the number of those coming in within magnitudes that we still can cope with. In 1994, we will open again to some 25,000 immigrants.

Q: Is Austria reassessing its security needs in the light of new challenges since the end of the cold war?

A: We have to deal with an increased number of conscientious objectors. We have to modernise equipment. And with this modernised equipment, we will try to increase our ability to join United Nations forces in trouble spots int he world. We have abstained from defining a different kind of threat after the east-west antagonism vanished. We say only that we must always be in a position to defend our borders.

Q: How do you feel about the evolution of the new regimes in central and eastern Europe?

A: They have serious deficiencies in infrastructure that lead to a smaller capacity to improve their private economies. We need a new initiative – Europeans together, not on a bilateral basis - to develop their infrastructure. They cannot do it by themselves, and it is unwise for us to say to them, 'First develop your infrastructure, and then we will come with investment'.

I have recently asked my German and Italian and Finnish colleagues – those in the front-line states, so to speak - to work together to support our financial and industrial groups to pool resources and concentrate on a number of specific projects.

Franz Vranitzky: 'not all reforms are popular' Tony Andrews

Banking: rationalisation is the theme, says Ian Rodger

Profit, but little joy

MOST BANKS in Europe are either already enjoying or anticipating enjoying the impact of lower interest rates on their basic business.

Austrian banks are in the first category, having already had a taste of wider spreads as the Austrian National Bank has dared for some months to push a step ahead of the German Bundesbank in lowering rates.

Profits of Bank Austria (BA), the country's largest bank, jumped 51 per cent in the first half, to Sch2.01bn, while those of Creditanstalt soared 77 per cent to Sch2.3bn.

Both banks made clear that the gains had to be seen against extremely depressed results last year, and that the profit surge came mainly from trading activities, but they were nevertheless optimistic for significant improvement in the year as a whole.

In spite of this pleasant outlook, there is not much joy in Austrian banking circles these days. Rather, a pall of unfinished business hangs over the scene, leaving a certain amount of anxiety in the boardroom of nearly every major bank.

Rationalisation has been the key theme in Austrian banking for several years. The country has a ridiculous number of bank branches, one for every 1,340 residents. However, for a long time, most banks were well armed with hidden reserves and state backing, and so could afford to take a fairly relaxed attitude to the hard decisions that had to be taken.

Now, after huge losses in foreign misadventures and, more recently, domestic losses, the big banks are coming to the end of their reserves, and the government wants to sell out. Smaller savings banks, too, are under pressure from nervous local authorities to throw in their lot with larger groups.

The main focus in the past year has been on Bank Austria, the country's largest bank following its creation in November 1991, from the merger of the city of Vienna's Zentralsparkasse savings bank group and Länderbank.

BA realised from the start that it had to close about 50 of its 407 branches, but it has had to proceed cautiously because of trade union sensitivities. It has also had immense problems trying to integrate the computer systems of the two banks, and faces a huge provision to cover the costs of the old Zentralsparkasse pension obligations. By a quirk of history, Zentralsparkasse employees were not included in the otherwise universal state pension system.

Analysts reckon that by the time these matters are settled in two or three years, BA will have completely used up its roughly Sch6bn in hidden reserves.

Another area of tension is the country's large savings bank sector. The problem here, paradoxically, is that rationalisation has proceeded so quickly that it has altered the balance of power in the system.

In the mid-1970s, there were over 170 savings banks, and each had a relatively small stake in their large central clearing organisation, Girozentrale. As a result, Giro could dominate the organisation and pursue its wholesale banking business as it saw fit.

In the 1980s, the two largest savings bank groups, Zentralsparkasse and Erste Oesterreichische (First Austrian), bolstered by a landmark court judgment facilitating the sale of savings banks by local authorities, went on acquisition sprees.

Bank Austria realised from the start that it had to close about 50 of its 407 branches

The result today is that only 80 savings bank organisations remain, and Zentralsparkasse, now part of Bank Austria, and Erste together control over half of the shares of Giro, since renamed Girocredit.

Being large universal banks in their own right, Bank Austria and Erste have no need of a clearing organisation like Giro and tend to see it as a competitor, particularly in capital markets business.

Not surprisingly, Giro has squirmed uncomfortably under these new constraining forces, and has tried various strategems to force its two largest shareholders to sort the situation out.

The main proposal, first made three years ago, was that Bank Austria should sell out of the savings bank sector, and that Erste and Giro should merge. A first round of negotiations in the summer of 1991 collapsed in mutual recrimination, and a second attempt is now at a sensitive stage.

It now seems clear that Bank Austria will sell its 31 per cent stake in Giro. The problem is: who will buy it, and at what price? BA put down a marker, when it sold the stake at the end of last year to an affiliate, in order to crystallise capital gains to cover loan losses, at a self-determined price of Sch400 per share. This would indicate a value of Sch16.4bn for the whole bank.

That is perhaps a bit on the high side, even though Giro's profit performance has improved substantially this year. But any reasonable price would be beyond the ability of Erste alone to pay. Its total assets at June 30 this year of Sch184bn were significantly less than Giro's Sch230bn at the same point.

Moreover, Erste is at best a diffident buyer. It has carved out a successful niche in retail banking, and is nervous about making its life more complicated.

Hence, an effort is being made to form a consortium that would include the other largish savings bank groups from provincial capitals. But it all takes time.

"The 20 key people in the savings bank sector are beginning to understand. Now they have to tell 60 others and get their supervisory boards to agree," an Erste director explains.

Ownership and control are also live issues at Creditanstalt. The bank's proud patrician management has been eager for several years to rid itself of state control.

The government cut its capital stake from 60 per cent to 49 per cent several years ago, but it still holds 70.5 per cent of the votes. Last year, as its own budgetary problems mounted, it became more eager to sell, and in November, it emerged that negotiations on the sale of a 20 per cent stake to General Electric of the US had taken place.

These apparently came to naught, and in the spring an attempt was made to merge the bank with the very large Raiffeisen group of co-operative banks, with Raiffeisen buying the government's stake.

Creditanstalt's management balked at this project, and the government agreed that it was not a sensible solution. Since then, as a result of the sharp rise in the CA share price this year, there has been much talk of floating the government's shares in the market.

That is clearly the wish of the bank's management, which would rather not be faced with another strong controlling or influential shareholder. Mr Ferdinand Lacina, the finance minister, is not convinced that it is the best solution.

"Their interest is not necessarily the same as ours," Mr Lacina says.

The stock market reformers have moved fast

A helping hand for equities

FEW STOCK markets have given investors as rocky a ride as Austria's in recent years. A sparkling bull run in 1989 and early 1990 was followed by three years of slump, with the all-share index losing over half its value in the period from January 1990 to January 1993.

This year, the market has bounced back, but many investors remain suspicious of the uptrend, given the still weak economic outlook for the country.

In part, the Austrian market's high volatility reflects its small capitalisation and the relatively small proportion of most companies' shares that are freely available for trading. It suffices for a couple of big UK or US institutions to adjust their overall weightings for Austria by a point or two to move the whole market.

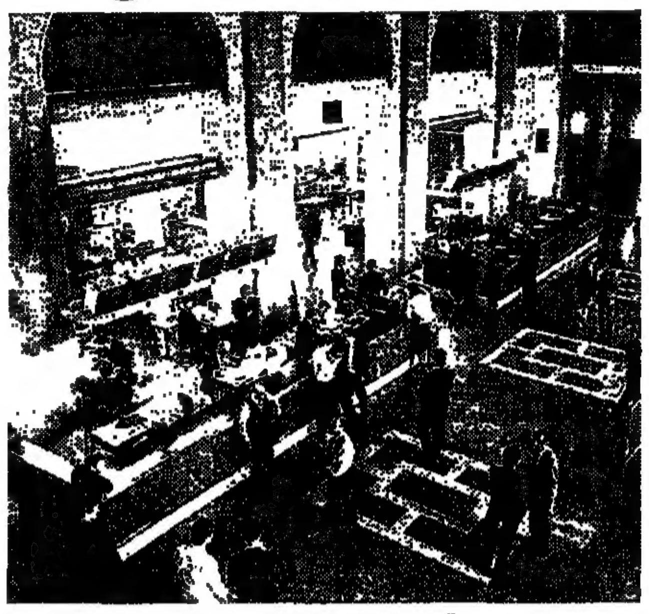
But there have also been many structural problems – a lack of active domestic institutional investors, a tax system that discriminates against equity securities and inadequate investor protection provisions.

In mid-1991, when the market was showing no signs of emerging from its long decline, Austrian leaders decided that enough was enough. Within a short time, a strategy committee was formed under the personal leadership of Mr Ferdinand Lacina, the finance minister, and containing representatives from all interested groups. "This was deliberate. We wanted to break up the old bankers' club image," one official, working on the committee, says.

By any measure, the committee has moved with remarkable speed on several fronts. Among the more important measures taken to date:

■ An amendment to the Stock Exchange Act was passed in the spring, making insider trading a criminal offence. This came into effect on October 1. Mr Lacina has since said that he will outlaw the use of anonymous bank accounts for securities transactions by the end of this year. This move is a prerequisite to the effective investigation of suspected insider dealings.

Meanwhile, leading banks and brokers have drawn up and adopted a standard compliance code for handling price-sensitive information. This is a particularly important measure, because trading in securities in Austria is dominated by the same three large universal banks that dominate the new-issue and corporate-lending businesses.



The Vienna Börse will soon have screen-based trading — Tony Andrews

For their part, quoted companies are being pressed to adopt fair and timely procedures for disclosing their accounts and other information likely to have an impact on their share prices.

■ A series of capital market-friendly tax reforms was agreed in May, and will come into force at the beginning of next year.

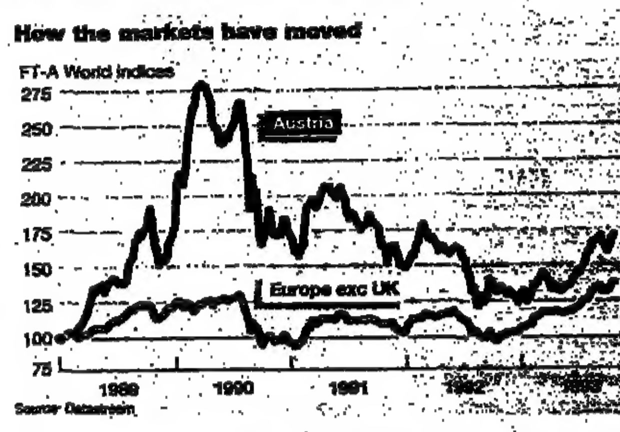
A wealth tax, which discouraged entrepreneurs from taking their companies public, is to be abolished, as is an irritating trade tax. The stock exchange turnover tax will be abolished with respect to securities lending.

Individuals are given special incentives to invest, the most important being an annual tax-free allowance of Sch10,000 invested in equities. Taxation on income from securities and bank savings accounts will be equalised at 22 per cent. Previously, income from securities was more highly taxed.

■ The Vienna Börse itself has taken a number of steps to make trading more efficient and transparent, and more are on the way. In July, daily trading hours were extended by one hour, and a computerised analytical data base has been set up to promote the equal dissemination of information.

A screen-based trading system is scheduled for installation late next year, and the exchange is encouraging companies to simplify their equity structures so that the market in their shares is more liquid.

How the markets have moved



Source: Datastream

The exchange is eager to improve, because of the danger of more trading activity leaking out to the SEAQ market in London. Already five of the largest Austrian quoted companies – Creditanstalt, EVN, OMV, Wienerberger and Verbund – are quoted on SEAQ, and analysts estimate that nearly a fifth of trading of their shares is done in London.

The two big outstanding issues for the committee are the establishment of an overall market supervisory body and the stimulation of institutional participation.

The government tried to promote institutional participation four years ago, by raising the proportion of their funds that insurance companies could put into equities to 30 per cent. But these companies have remained extremely cautious about exercising their new freedom, and so far have only about 6 per cent of their funds in equities. Analysts agree that they are unlikely to change until the cozy Austrian insurance market becomes part of the European Community market, forcing them to try to get better performance from their funds.

Pension funds are virtually non-existent in Austria, because the government's (unfunded) universal pension scheme covers about 80 per cent of requirements.

As for an Austrian securities and exchange commission, everyone agrees that there is a need for such a body, but Mr Lacina, for one, is worried about using a sledgehammer to crack a nut. "We do not want an over-bureaucratic system," he said in a recent interview.

The reform process suffered a serious blow last spring with the death of Mr Helmut Haschek, chief executive of the Austrian Control Bank (OeKB), the clearing house for the Börse.

However, Mr Johannes Attems, another OeKB director, says anxieties about the loss of Mr Haschek's drive and influence on the process are misplaced. "Once you get a critical mass of things moving, then the whole process gains momentum and cannot be reversed," Mr Attems says.

He adds that government leaders understand the urgency of reform.

"We are going to have some \$100bn - \$150bn in privatisation projects in the next five years in Europe. Private capital has to be attracted.

"We in Austria are competing with other capital markets. If we want the large Anglo-Saxon institutional investors in our market, then we have to adopt their rules, make it easier for them and provide better opportunities for them than elsewhere in Europe.

"We also have to tell the Austrian investor that he should invest more in equities, and not just Austrian equities."

Ian Rodger

The media

Cable bypasses the monopoly

A COUNTRY like Austria, which lives in the shadow of a much larger country that shares the same language, is bound to have trouble maintaining its national media.

Technological advances and economic liberalisation have made it almost impossible to protect a national media, but the government goes on trying.

Austria is one of the last countries in Europe with a state broadcasting monopoly. Neither private television nor radio stations are allowed, and the Austrian Broadcasting Corporation (ORF) has a government mandate to air quality documentaries as well as important cultural events.

This has made two-channel ORF perhaps the most respected German language television group, but not the most profitable.

In the newspaper sector, most of the papers that were backed by political parties have recently folded, but the government is still spending more than Sch200m a year to subsidise a handful of dailies with smaller circulations.

Even so, the days of a distinctively national media appear numbered, whether Austria joins the European Community or not.

Through the growth of cable television, more than half of Austrian households can watch German TV channels, including the popular commercial stations like SAT 1 and RTL.

And in recent years, German newspaper concerns, looking for an opportunity to invest excess cash, have bought large stakes in some of the largest Austrian publishing groups.

It all started in the mid-1980s with a quarrel between the co-owners of the largest tabloid daily, the Kronenzeitung. Hans Dichand was looking for someone to buy out his long-time partner Kurt Falk for Sch2bn, and finally found Westdeutsche Algemeine Zeitung (WAZ), a large German newspaper chain.

WAZ then went on to invest in Kurier, the second-largest daily, which also owns several important magazines. This created the media group with the highest market share anywhere in Europe.

Other German media groups jumped in. Axel Springer Verlag, in 1988, helped launch the Standard, which soon became the country's largest quality daily, and took stakes in other newsprint products. As many papers are currently losing money, they depend financially on their German sugar daddies.

Even bigger changes are happening in the electronic media. Standing on the verge of EC membership, Austria knows that it cannot maintain the ORF monopoly for long. But the legalisation of private broadcasting has been stymied by a battle over influence and ideology between the two main political parties, the Social Democrats (SPO) and the conservative People's Party (OVP).

The Social Democrats, who dislike commercial television, want to permit a private channel to co-exist next to the two ORF channels. Conservatives argue that the advertising pie is much too small to support three Austrian channels. So they want ORF to spin off its second channel to private investors, a move strongly opposed by the ORF leadership.

Meanwhile, a power struggle has begun at ORF following the retirement of veteran chairman Gerd Bacher. Strong-willed and politically aware, Mr Bacher had improved ORF's financial fortunes by cutting costs and boosting the state-regulated advertising revenues.

His successor, however, will have to do more to guarantee the group's survival amid growing competition. He will have to cut down on the vast bureaucracy and curtail political interference in personnel decisions and content.

A law permitting private radio stations will finally come into effect next year, but its terms are controversial. Foreign participation will be limited to 25 per cent, and most of the new stations are likely to be controlled by the large newspaper groups and quasi-governmental institutions, thus increasing the already high concentration of media power.

The small independent radio stations that set up across the border in neighbouring countries and broadcast into Austria are likely to fold.

Eric Frey